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MONDAY JUNE 24 1996

Israel rejects 'land-for-peace' principles without security guarantees Arabs call for new peace talks

By James Whittington in Cairo

Arab leaders yesterday called for a resumption of peace talks with Israel, but warned they would reconsider their policy of rapprochement if the new rightwing government in Tel Aviv deviates from "land-for-peace" principles.

The summit and its resulting communiqué were yesterday being touted by Arab diplomats as an opportunity for Mr Benjamin Netanyahu, Israel's new prime minister, to take into account the views of his Arab neighbours before embarking on policies which will affect the peace process.

But Mr Netanyahu said the Arab summit statement was "one-sided" and that "demands which harm security do not go together with talks for peace".

"For the process to continue successfully and fruitfully, such statements must be stopped. That is the most basic demand for talks on co-existence and peace," Mr Netanyahu said in a statement.

At the end of the first full-scale Arab summit in six years, 20 Arab governments - with the exclusion of Iraq - reaffirmed their commitment to peace as "a strategic decision".

But the final statement put together after three days of intense negotiations in Cairo made clear that any further development in Arab ties with Israel was conditional on advances in negotiations based on a land-for-peace formula.

"If Israel deviates from the principles of the peace process or retreats from its commitments ... [then the resulting] resumption of tension in the region will compel all the Arab states to reconsider steps taken in the context of the peace process via-a-vis Israel," the statement said.

"The Israeli government will bear sole and full responsibility for this situation."

No mention was made of exactly what the Arabs would do if Israel does backtrack on its commitment to peace, but the summit appeared to be placing its faith in the ability of the international community to put pressure on Israel to compromise.

Ministers in Israel's new government clashed yesterday over the need to compromise with Syria in negotiations about the Golan Heights, writes Yacovlev Profenier in Jerusalem. The controversy began on Friday night, when Mr David Levy, the foreign minister, suggested that Israel might

meet Syria "half-way" on the Golan problem. However, other Israeli officials yesterday disavowed Mr Levy's conciliatory overture. Their reaction seemed to indicate the start of a serious argument split over the course of the peace process. Report, Page 4

way to prevent any negative bearing on the security of the Arab states".

Iran was also singled out for criticism for its "interference in the internal affairs of Bahrain" and its occupation of three islands in the Persian Gulf which, the statement said, should be returned to the sovereignty of the United Arab Emirates.

Another shared aim of the summit was the need to rebuild Arab unity, shattered after Iraq invaded Kuwait in 1990. After 50 years of Arab League rhetoric on the need for a common market, the 20 nations relaunched the project of economic integration and the need to build effective common institutions.

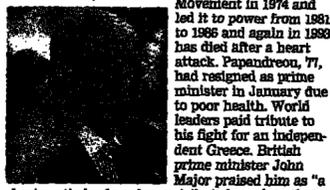
Arabs are looking at the prospect with renewed anxiety because of fears of Israeli hegemony, as well as military, hegemony.

In their communiqué, the Arab leaders called on Turkey "to reconsider this agreement, in a

Summit demands land, Page 4

World leaders pay tribute after death of Papandreou

Former Greek prime minister Andreas Papandreou (below), who founded the Panhellenic Socialist Movement in 1974 and led it to power from 1981 to 1986 and again in 1988, has died after a heart attack. Papandreou, 77, had resigned as prime minister in January due to poor health. World leaders paid tribute to his fight for an independent Greece. British prime minister John Major praised him as "a charismatic leader who contributed much to the development of modern Greece". Page 16; Obituary, Page 2



charismatic leader who contributed much to the development of modern Greece". Page 16; Obituary, Page 2

US fears on British defence contracts: US contractors fear they are being shut out of competitions after a UK government decision to favour British contractors when it awards more than £12bn (\$18.4bn) of defence equipment work. Page 6

Calls for Eurotunnel resignations: Several directors of Eurotunnel, the troubled Anglo-French operator of the Channel tunnel rail link, may face shareholders' calls for their resignations at the annual general meeting on Thursday. Page 17

Lira's ERM return unlikely before autumn: The re-entry of the lira into the European exchange rate mechanism is not likely before autumn, after Italian officials at the EU summit in Florence declined to offer any date for preparations on the currency's return. Page 2; UK, Germany block financing for transport networks, Page 16

US warned on Cuba law: European Union leaders have threatened to retaliate to protect foreign investors in Cuba targeted by US anti-Castro legislation. Page 3

Japan to press G7 on aid: Japan will unveil plans at this week's Group of Seven summit to improve international development aid. Page 3

Russian Liberals refuse to back Yeltsin: Russia's biggest liberal party, Grigory Yavlinsky's Yabloko movement, refused to endorse President Boris Yeltsin's re-election bid. Page 2

'Low risk' of HK capital flight: Crédit Lyonnais Securities (Asia), the French banking group's regional arm, said most Hong Kong residents had largely completed financial preparations for the territory's return to China next year, reducing the risk of capital flight. Page 3

Drugs sales growth slows: World drugs sales growth slowed to 5 per cent in March, from 7 per cent in the previous two months. Sales of prescription drugs in the world's 10 biggest markets in the first quarter of 1996 were worth \$35.5bn. Page 4

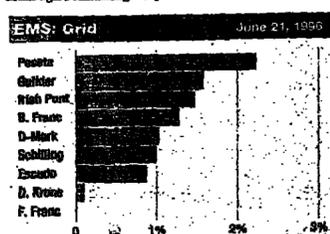
Awami takes power in Bangladesh: Awami League leader Sheikh Hasina was sworn in as Bangladesh's prime minister - ending 21 years of political opposition for the party forged by her father, Sheikh Mujibur Rahman. Page 3

England and Germany in semi-final clash: England will play Germany in the Euro 96 semi-final at Wembley on Wednesday after the Germans beat Croatia 2-1 in Manchester. France will meet the Czech Republic who beat Portugal 1-0 in Birmingham. Observer, Page 15

India in command at Lord's: England ended the third day of the second Test against India at Lord's on 113-2 to add to their first innings total of 344. India scored 429 in their first innings. Field day for litigation, Page 10

European Monetary System: The Irish punt rose three places in the EMS grid last week against a backdrop of quiet market conditions. The order was otherwise unchanged, with the spread between strongest and weakest currencies widening slightly, although remaining very low. Currencies, Page 23

EMS Grid June 21, 1996



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the system. Most of the currencies are permitted to fluctuate within 15 per cent of agreed central rates against the other members of the mechanism. The exceptions are the D-Mark and the guilders which move in a 2.25 per cent band.

Country	Code	Rate	Country	Code	Rate
Austria	LEK 200	Germany	DAL20	Lithuania	Lt 15.00
Brazil	Sch 07	Greece	GR00	Latvia	LV10
Canada	Can 100	Hong Kong	HK00	Malta	MT00
Denmark	Dkr 100	India	INR00	Mexico	MX00
France	FFr 100	Indonesia	INR00	Norway	NOK00
Germany	DM 100	Italy	ITL00	Poland	PLN00
Greece	GRD 100	Japan	YEN00	Portugal	Esc 200
India	INR 100	Korea	WON00	Spain	PES00
Indonesia	Rp 100	Latvia	LVL00	Sweden	SKR00
Italy	Lira 100	Lithuania	Lt 15.00	Switzerland	Sfr 100
Japan	Yen 100	Malta	MT00	Taiwan	TWD00
Korea	Won 100	Mexico	MX00	Thailand	THB00
Latvia	LVL00	Norway	NOK00	Turkey	Lira 100
Lithuania	Lt 15.00	Poland	PLN00	USA	Doll 100
Malta	MT00	Portugal	Esc 200	West Germany	DM 100
Mexico	MX00	Spain	PES00	Yugoslavia	Din 100
Norway	NOK00	Sweden	SKR00		
Poland	PLN00	Switzerland	Sfr 100		
Portugal	Esc 200	Taiwan	TWD00		
Spain	PES00	Thailand	THB00		
Sweden	SKR00	Turkey	Lira 100		
Switzerland	Sfr 100	USA	Doll 100		
Taiwan	TWD00	West Germany	DM 100		
Thailand	THB00	Yugoslavia	Din 100		

Beijing calls off German visit as rift over Tibet grows

By Michael Lindemann in Bonn

A smouldering row between China and Germany over German support for Tibetan human rights has turned into a serious diplomatic dispute as Beijing yesterday called off a planned official visit next month by Germany's foreign minister Mr Klaus Kinkel.

The Chinese foreign ministry said a motion passed last week in the German parliament citing China's "violent suppression of Tibet" was a "gross interference in China's internal affairs".

Germany was to blame for any damage to bilateral ties, the ministry added.

The row began some weeks ago when the German government proposed providing a subsidy for a large conference on Tibet to be held in Bonn.

Under pressure from the Chinese, that funding was withdrawn, but the conference went ahead and was widely supported by German politicians from all parties, including those in the governing coalition.

In an initial expression of its anger, the Chinese government forced the closure of the Beijing office of the Friedrich Naumann Foundation, a human rights organisation which co-sponsored the conference with the Tibetan government in exile led by the Dalai Lama.

Offended German politicians then arranged for a motion to be introduced in the Bundestag, the lower parliamentary chamber, criticising China's record on human rights and its repression of Tibet.

"In these circumstances, the Chinese side feels the atmosphere is clearly not appropriate for a planned visit to China by foreign minister Kinkel on July 11-14," the Chinese foreign ministry said.

It remained unclear how booming trade links would be affected by the sudden souring in Sino-German relations. Germany is China's fourth biggest trading partner, after Japan, Hong Kong and the US, and trade has increased significantly over the last two years to about DM25bn (\$16bn) following a number of high-level state visits on both sides.

On his most recent, fourth visit last November, Chancellor Helmut Kohl made a considerable effort to improve relations by inspecting a Chinese infantry division, the first such gesture by a western head of government since the Tiananmen Square killings in 1989.

German officials indicated that

Continued on Page 16



Microsoft stirs controversy with Internet magazine

By Louise Kehoe in San Francisco

Slate, an online magazine or "webzine" launched today by Microsoft, is already stirring controversy because of its powerful owner's increasing prominence on the Internet.

The magazine is one of several publishing ventures that Microsoft, the world's largest software company, is undertaking as part of its new focus on Internet software and services.

Mr Michael Kinsley, its editor, said it would bring "serious conventional journalism for people who are not cyber-freaks" to the Internet.

The first issue tackles head-on the question of whether Slate is merely a mouthpiece for Microsoft and Bill Gates, its billionaire chairman and chief executive. "Is Microsoft Evil?", asks the headline on the cover.

The discussion that follows is, however, muted in its criticism of the company and includes a statement and riposte from a senior Microsoft executive.

Additional comments "purged of cheap shots and sound bites" will be added on a daily basis, according to Slate's publicists.

Mr Kinsley, a former editor of New Republic magazine, acknowledges that he is a newcomer to the high-technology arena, but professes to be annoyed by questions about whether Microsoft is seeking to expand its domination of the computer screen by publishing

Slate. "Microsoft has conflicts of interest and ulterior motives but they are not any worse than those of Pearson (publisher of the Financial Times) or Rupert Murdoch or Time Warner," he claims.

"In an era of media conglomerates, how can it be a bad thing for a new company to begin competing in the media business?"

Mr Kinsley aroused controversy when he joined Microsoft earlier this year with his comment that most of what was published on the Internet was "crap". He is now at pains to

Down to earth in cyberspace, Page 11
Lex, Page 18

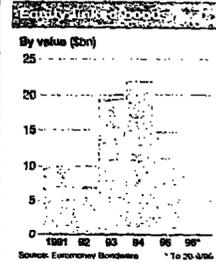
explain that he had not meant to denigrate other World Wide Web publications, but was referring to the thousands of pages of corporate advertisements to be found on the Web. "Most of what is published on paper is crap," he adds.

Nonetheless, his comment has drawn barbed responses from Internet enthusiasts and editors of other webzines.

"Slate will continue Microsoft's tried and true corporate strategy: first let the other guys do the real innovation, then swoop down on the market and cop all their moves," Feed Magazine, a website that covers arts, politics, technology and the media, claimed in a recent editorial.

Japan and S Korea seek harmony

Japanese prime minister Ryutaro Hashimoto (left) and South Korean president Kim Young-sam display signed footballs during the 'soccer summit' on Cheju Island, South Korea. Their meeting follows the recent decision that the two nations would co-host the World Cup in 2002. The two leaders vowed to begin a new era of co-operation in relations. Report, Page 16



Markets uncertainty leads to convertible bonds rush

By Antonia Sharpe in London

New issue volume in international convertible-bond markets has already passed last year's total of £15bn (\$23bn) and is on course to exceed the 1994 record of £22.2bn as investors hedge their bets about the direction of bond and stock markets.

Convertible bonds are a hybrid of bond and equity. Like a bond they provide the holder with an income, although this is lower than on a conventional bond because the holder also has the right to buy the issuer's shares at a pre-determined price during the life of the bond.

Traditionally bought by dedicated convertible-bond funds, these instruments now appeal to a much wider range of investors.

Fixed-income investors are willing to give up some yield in order to boost their performance through exposure to the stock market while equity investors view the coupon on the bond as

downside protection against a possible fall in the stock market. "The current backdrop of low bond yields, high share prices, and the supply-demand imbalance means that companies and financial institutions can raise equity-linked financing on attractive terms."

Companies to tap this market so far this year include Daimler-Benz, Germany's biggest industrial company, Sumitomo Bank of Japan, BAA, the UK airports

Continued on Page 16
Bonds, Page 23

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SQUARE MILES BETTER

NEWS: EUROPE

EU summit warns US on sanctions

By Lionel Barber and Robert Graham in Florence

EU leaders have sent a tough warning to the US threatening retaliation to protect foreign investors in Cuba targeted by anti-Castro legislation.

A communiqué issued at the end of the European summit in Florence at the weekend voiced "deep concern" over the extra-territorial impact of the Helms-Burton bill. The same message was directed at similar pending legislation covering Iran and Libya.

The Helms-Burton bill - named after its Republican sponsors in Congress - provides for legal action against foreign companies and their executives who "traffick" in expropriated property formerly owned by US citizens, including Cuban exiles.

The European declaration expressed regret that the Castro regime has failed to introduce democratic reform. But it added bluntly: "The EU asserts its right and intention to react in defence of the EU's interest in respect to this legislation and any other secondary boycott legislation which has extra-territorial effects."

The EU's combative tone sets the stage for a confrontation which may be hard to contain in a US presidential election year, in spite of the commitment on both sides to strengthen transatlantic business and political ties under an action plan agreed at last December's EU summit in Madrid.

In the next few days, a US report is due to be released into the shooting down of two small Miami-based civil aircraft by Cuban jets - an incident that gave impetus to the Helms-Burton legislation aimed at tightening the economic noose round President Fidel Castro.

US officials last week leaked extracts of this report which appeared to justify the State Department view that the shooting down took place in international airspace, contrary to Cuban claims.

Earlier this month, the European Commission asked President Clinton at the EU-US summit in Washington to use his presidential waiver to nullify Title Three of the Helms-Burton bill. Such a conciliatory gesture would protect foreign investors from being sued for dealing in Cuban buildings and property.

Mr Clinton can waive this part of the bill for six-month periods, beginning on July 15. But he cannot waive Title Four, which bars from the US individuals and their families or "agents" such as lawyers or accountants acting for a corporation or its executives.

The extra-territorial aspects of the bill have provoked outrage, particularly in Europe, Mexico and Canada. The EU has demanded consultations under the World Trade Organisation.

The Italian government is particularly exercised over the provisions of the bill, because it targets Stet, the Italian telephone company. Stet bought a stake in a Mexican company in which Cubans had an interest and now funds itself on a list of potential US targets.

The EU is also worried about pending legislation relating to trade with Libya and Iran, both judged rogue states by the US.

Italian hopes of early re-entry into ERM hit

By Robert Graham

The re-entry of the lira into the European exchange rate mechanism (ERM) is now considered unlikely before autumn.

The new centre-left government of Mr Romano Prodi had hoped to use the two-day European summit under the Italian presidency in Florence to announce a deal on the lira, which was forced out of the ERM in September 1992.

Two weeks ago, after meeting French President Jacques Chirac, Mr Prodi said preparations for re-entry would begin with France and Germany immediately after the Florence summit. But as the summit closed on Saturday, Italian officials declined to offer any date and other EU delegates were cautious in public discussion about the lira.

When asked by journalists about re-entry, Mr Prodi avoided any commitment about the timetable.

Despite French and German support for the lira to be brought back inside the ERM to prevent a repetition of the Italian currency's damaging competitive devaluation, there was no sign of any agreement on the possible parity.

Discussion in recent weeks has centred on trying to find agreement to anchor the lira against the D-Mark between a high of 1.1,000 and a low of 1.1,500. The lira is currently trading around 1,100.

Italian exporters have voiced concern about any hasty move



Romano Prodi: focused on issue of monetary union

that might prejudice foreign sales already affected by this year's much strengthened lira. Mr Prodi himself has made it clear the parity must be clearly studied to ensure the lira is not forced out once it rejoins.

At the summit Mr Prodi sought to focus on the broader issue of monetary union, giving a clear signal that Italy intended to have "all its cards in order" to be a proper partner in the single currency.

The premier showed his fellow EU leaders he was fully committed to monetary union, even if Italy intended to press for a flexible approach in judging the convergence criteria laid down by the Maastricht treaty.

Italy thus will be winding up its EU presidency at the end of the month with a committed EU agenda. This contrasts with the lukewarm enthusiasm for Europe shown by the Berlusconi government, the weakness of the succeeding Diini non-parliamentary administration and the caretaker administration that governed during much of the presidency.

The final phase of the presidency proved a considerable diplomatic success.

Mr Lamberto Dini at the foreign ministry was instrumental in brokering a deal to end Britain's non-cooperation policy as a result of the ban on British beef. The issue could have derailed the summit, but a compromise was tied up in the opening moments, scarcely disrupting business.

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OBITUARY: ANDREAS PAPANDREOU

Autocratic leader who broke the right's grip

In a country with a tradition of producing politicians who inspire strong passions, Andreas Papandreu, Greece's first socialist prime minister, must be counted one of the most controversial of all.

Papandreu's 35-year political career was filled with contradictions. As an economics professor whose irresponsible fiscal policies in the 1980s plunged Greece deep into debt, and a former American citizen who came to power on a fiercely anti-western platform, he was always open to accusations of political opportunism.

His most remarkable feat was to lead the Panhellenic Socialist Movement (Pasok) back to power in the general election of October 1988 at the age of 74. Papandreu battled successfully against ill-health, corruption charges and criticism of his private life, marked by a much-publicised affair and eventual marriage to Dimitra Liani, an Olympic Airways stewardess more than 30 years his junior.

Yet despite abrupt shifts in both economic and foreign policy, which saddled Greece with large deficits and exasperated its EU and Nato partners, Papandreu went some way towards achieving his aim of modernising Greece.

By the time he regained power, Pasok had moved away from its radical third world outlook and dirigiste economic policies and become more of a European social democratic party, embracing the EU's single market, the free-market economy and even privatisation.

Born on February 5 1919 on the Agios Island of Chios, Papandreu was exposed to the volatile Greek political world from an early age as the son of George Papandreu, a prominent centrist politician.

His start in politics, organising a Trotskyist group at Athens College, a US-founded private school for the sons of the Greek elite, had potentially disastrous consequences. The young Papandreu was arrested by the rightwing Metaxas dictatorship in 1939 and roughed up. Rather than risk imprisonment, he emigrated to the US, where he studied economics at Harvard and became a US citizen after serving in the US navy medical corps.

Papandreu's academic career flourished, leading to an economics chair at the University of California at Berkeley in 1955 and a reputation as one of the leading economic theorists in the US.

His first marriage to Christina Rassa, a Greek-American psychiatrist, ended in divorce. In 1952 Papandreu married Margaret Chant, a public relations executive whom he first met in a dentist's waiting room.

Appointed chairman of Berkeley's economics department, with a strong interest in Democratic party politics, Papandreu appeared set to remain in the US. Greece, however, exerted a strong pull and in 1961 he accepted an offer from the conservative prime minister, Constantine Karamanlis, to establish an economic research centre to help shape the country's future.

With his father's Centre Union party clearly headed for power, he was soon drawn into active politics. Papandreu was elected to parliament from Achaia, the family's original home, and joined his father's cabinet, becoming economy minister in 1963.

As a member of the government, his outspoken criticism of US embassy involvement in Greek politics, and alleged ties with a group of young army officers accused of trying to overthrow the monarchy, contributed to increasing political instability.

When the colonels' junta seized power in April 1967, Papandreu was arrested and held in solitary confinement for eight months. Released through the mediation of several influential US politicians and economists, Papandreu



Andreas Papandreu: maverick policies distanced Greece from its western partners

found himself in exile again, first in Sweden, then in Canada.

Returning to Greece in 1974 after the junta's collapse, he founded Pasok, a party with a Marxist charter and strong anti-American bias, which exploited the resentment among Greeks of US support for the military regime.

Pasok gained ground steadily, building a firm base with the help of Papandreu's persuasive rhetoric. At the 1981 elections the socialists swept to power on a platform calling for *alloghi* (change).

Once in power Papandreu abandoned his threats to take Greece out of the European Community and shut down the US military bases. At the same time he appeased Pasok's radical wing by keeping up a

steady stream of anti-western rhetoric and by nationalising several large Greek industrial companies - a move that effectively frightened away private investment for the rest of the decade.

His maverick policies also distanced Greece from its western partners. His refusal to endorse European positions towards the Soviet Union, together with an insistence on close ties with Libya and other radical Arab regimes, damaged ties with Brussels and reduced Athens' chances of winning support for its problems with Turkey over sovereignty in the Aegean.

The mercurial quality of Papandreu's politics was reflected in his personal life: close political allies and friends of long standing would be dropped without warning. Yet despite his autocratic style, he never relished the trappings of office. One former cabinet minister said: "He preferred a bohemian life - convivial evenings in tavernas or over a bottle of whisky, and female company."

The first Papandreu government implemented long-overdue social reforms and overhauled higher education. But his insistence on maintaining generous wages and welfare payments at a time of stagnant growth took public sector borrowing to record levels.

The deteriorating state of public finances effectively brought Greece's socialist experiment to an end in 1985, when Papandreu introduced austerity measures, followed by a gradual liberalisation of financial markets.

Increasing corruption within Pasok, coupled with Papandreu's open relationship with Ms Liani, eroded the government's popularity. In 1988 a \$300m embezzlement scandal at the Bank of Crete was linked with the government just as Papandreu was undergoing open-heart surgery.

Pasok lost power in the conservative at a general election in 1989. Papandreu was charged with bribery and breach of trust in the Bank of Crete affair, only to be acquitted after a year-long trial which he refused to attend.

The trial also revived a 25-year-old personal feud with Constantine Mitsotakis, the Conservative who succeeded Papandreu as prime minister. As ambitious young Centre Union politicians, Papandreu and Mitsotakis were cabinet colleagues, but Papandreu never forgave Mitsotakis for bringing down his father's government in 1965 by defecting with a group of deputies. Yet he mellowed during his second term in office to the extent of allowing corruption charges against Mitsotakis in a 1992 privatisation to be dropped.

Papandreu's second term in office was marked by weakening health, which restricted his capacity to address Greece's worsening economic problems or improve strained relations with its Balkan neighbours.

Despite worsening health, Papandreu kept a tight grip on foreign affairs but in the final months in office he allowed his economic ministers greater freedom to push market policies, approving flotations of state corporations and efforts to restrain inflation. His aura of authority was still so strong that would-be successors lacked the confidence to force him into retiring.

His death ends the era of authoritarian control over Greek political parties and opens the way for government by consensus.

Kerin Hope

Legislation to curtail Emu speculation outlined

By Gillian Tett in Brussels and George Graham in London

The proposal from the EMI - forerunner of a European central bank - is likely to be welcomed by governments and many banks, as it would give more legal support to the next stage of Emu.

Mr Colin Bamford of the Financial Law Panel in London said: "What this proposal is saying to the markets is that there is no point in trying to enter into speculative forward contracts." He added: "In our view this is essential to make Emu solid. But it is obviously going to upset people in the markets who wanted to make money out of all this."

The move may also be controversial in some legal circles, not least because it is thought by bankers to be the first time governments have attempted to legislate against currency speculation in this way.

And the suggestion is viewed with unease by some national governments and officials in the European Commission who fear it would interfere with the principle that businesses have full freedom to set their own contracts.

Under current law, for example, central bankers have no means of enforcing fixed exchange rates on businesses, or preventing businesses from using any rate they wish in contracts.

However, the EMI's proposed regulation would state that "no legal action will be available to enforce any conversion rate other than the official rate" for dealings between currencies or against the euro. The only exception would be if "such a rate was agreed before the adoption of the official conversion rates".

A final decision on whether the principle should be implemented is not expected until next month, when the European Commission submits its formal plans for the new legal framework needed for Emu.

Discussion about the new law has intensified in recent weeks after the EMI and Commission each submitted drafts of a legal framework for Emu to a meeting of the secretive monetary committee 10 days ago.

The drafts show there is already considerable agreement between the two institutions on the legal framework for Emu.

They indicate that many of the general legal issues surrounding the replacement of national currencies by the euro have been broadly agreed, together with some of the technical details such as how to round up currencies when converting through exchange rates.

However, several key areas remain uncertain.

The Commission, for example, is unsure which article of the Maastricht treaty should be used for the legal changes and whether these changes should be introduced immediately by all members, or agreed later by those participating in monetary union.

Meanwhile, the Commission's proposals to ensure the continuity of contracts are also viewed by some bankers as inadequate. Another key problem, which remains outside the control of the EMI and Commission, is that it is still unclear whether European legal rulings on the status of the euro will be recognised outside the EU.

Statistics pose further hurdle on rocky road to monetary union

When Europe's leaders decide in 1998 which countries will qualify for European monetary union, they will be expecting plenty of statistics. One controversy they might not yet be prepared for, though, is the matter of Europe's statistics.

For unless statistical agreements can be thrashed out in coming months, there is a danger that Europe's leaders will not have uncontested data on which to base their decisions on Emu membership.

And unless data gathering systems can be rapidly improved in many countries, the future European central bank may not even have the information it needs to run monetary policy once Emu starts.

As an official in one national statistics office says: "Politicians tend to think statistics can be produced for no money out of thin air. But the problems with Emu are serious."

Difficulties arise because the statistical systems used by individual countries vary significantly in methodology and quality.

At one end of the spectrum, data produced by the Scandinavian countries, France and the UK are deemed reliable, as they include monthly figures on most sections of the economy, backed up with extensive surveys.

However, at the other end of the spectrum, such countries as Greece and Belgium produce only patchy data. Although Belgium, for example, is improving its figures, it still has no recent data on gross domestic product - and figures from the end of 1995 are disputed.

As Mr Frank Laurent, an economist at the Belgium Business Federation, says: "We are the bad pupil of Europe. People are trying to improve the data but they are still not good."

Meanwhile, the countries between these extremes - Italy, Spain, Portugal, Austria, Ireland, Germany and Luxembourg - produce information with varying timeliness, and different coverage of items such as services.

If the data are only used for purposes of national policy, these differences may not matter.

But with Emu looming they have become important for two reasons: EU leaders must measure the same items when they judge economies for Emu entry; and once Emu starts, the future European central bank will need a harmonised system for tracking money flow across borders.

In theory the best way to ensure real comparability would be to use exactly the same method to gather and process statistics.

But this option is not feasible without considerable expenditure. And so the best interim solution is to make the statistics collected by each country as comparable as possible - while persuading laggards to improve.

The bodies charged with this daunting task - the European monetary institute and Euro-

stat, the statistical wing of the European Commission - insist in public that this should be possible.

As Mr Yves Franchet, director of Eurostat, says: "I am sure we will have the data we need ready for Emu."

But in spite of the heroic efforts both institutions are now making, some observers remain doubtful. As one official closely involved in the process says: "The reality is that there may not be high-quality data acceptable to everyone by 1998."

Part of the problem is one of resources: Eurostat's annual budget of Ecu100m (\$123m), for example, already faces a shortfall of some Ecu46m over the next two years.

However, the other problem is time. At least three years of figures are needed to adjust for seasonal patterns, and longer to establish credibility. As Mr Franchet says: "Creating statistics is like building a road. You cannot do it fast."

In some areas, such as fiscal deficits, considerable progress has already been made.

However, other data remain problematic. Money supply and balance of payments figures - crucial for the future operations of the European central bank - are currently gathered differently. And although central banks recently agreed a broad methodology, this can only be

Yavlinsky party refuses to endorse Yeltsin

By John Thornhill in Moscow

Russia's biggest liberal party yesterday dealt President Boris Yeltsin's re-election hopes a blow when it refused to endorse him against his communist challenger for the runoff presidential election on July 3.

After hours of debate at a weekend congress, the Yabloko movement, headed by Mr Grigory Yavlinsky, withheld majority support from Mr Yeltsin despite the president's attempt to enhance his democratic credentials by sacking three hard-line aides last week.

After coming fourth with 7 per cent of the vote in the first round of voting on June 16, Mr Yavlinsky has argued that Yabloko should offer conditional support to Mr Yeltsin, forcing him to temper his more extreme policies.

"Our main principle is to preserve a civil society and we should act accordingly," Mr Yavlinsky said yesterday.

But many Yabloko supporters argued they could not back Mr Yeltsin because of his conduct of the Chechen war and his regime's growing authoritarianism.

Eighty seven of 152 Yabloko delegates supported a move to vote against both candidates in the July 3 poll; 63 supported Mr Yeltsin while only two backed Mr Gennady Zyuganov, the Communist party challenger.

Mr Yeltsin, who topped the first round of voting earlier this month with 35 per cent of the votes, has been desperate to broaden his support to

Gillian Tett

Japan plans G7 initiatives on foreign aid

By William Dawkins in Tokyo

Japan, the world's largest aid donor, is to launch a series of initiatives at this week's summit of the Group of Seven rich industrialised nations to improve the effectiveness of international development assistance.

Tokyo will use the summit, in Lyons on June 27-29, to propose that savings from the reform of United Nations agencies involved in trade and the economy be recycled to developing countries as aid.

"If these reforms were to end up as reform for reform's sake, they would

not be supported by the majority of members of the United Nations, which are developing countries," said Mr Kazuo Ogura, personal summit "sherpa" for Mr Ryutaro Hashimoto, the Japanese prime minister.

Just how much cash could be released is as yet unknown, but it could be up to 20 per cent of the budget of the agencies concerned, said Mr Ogura, who is also Japan's deputy foreign minister.

Japan, which allocated \$14.72bn of development assistance last year, up 9 per cent on 1994, will ask its G7 partners to propose the establishment of a

UN task force to work out details, said Mr Ogura. Such a scheme had been discussed at the World Bank and in the OECD's development aid committee, where it had gathered some support.

In a second development initiative, Mr Hashimoto is expected to support the plan, under which aid donors and recipients would agree achievement targets, to give such assistance a tighter focus.

The UK and France are planning jointly to announce a targeted aid plan for African countries, to which

Japan is expected to contribute about \$100m, said Mr Ogura. The target will be to achieve full primary school attendance by 2010 or 2015.

"The aim is to join hands to realise these targets and work out new development strategies," said Mr Ogura.

At the G7 meeting Japan will announce plans to host an international conference on African development, a follow-up to a similar Japanese conference two and a half years ago.

China's bid to join the World Trade Organisation is another issue that Mr Hashimoto will pursue in Lyons. "It is getting politically unnatural for us to

see China still out of the WTO," said Mr Ogura.

Its absence from the organisation threatened to "weaken the whole trading system" because China could not, as a non-member, be asked to observe international trade rules, he argued.

Mr Ogura believed that US doubts over Chinese accession to the WTO, on which Washington used to be the leading sceptic, had eased a little since last week's agreement by China to curb abuse of intellectual property rights, over which the US had threatened trade sanctions.

Risk of capital flight from HK seen as 'low'

By John Ridding in Hong Kong

Hong Kong residents are well advanced with diversification of their assets into foreign currency, reducing the risk of capital flight ahead of the territory's return to China next year, according to a survey commissioned by Crédit Lyonnais Securities (Asia), regional arm of the French banking group.

The population of Hong Kong has largely completed its financial preparations for the 1997 handover," says a report based on the poll by the Chinese University of Hong Kong. As a consequence, it concludes that "the prospects of capital flight are low".

Capital flight is seen as one of the main financial risks facing Hong Kong as it prepares for return to Chinese sovereignty in little over one year.

A strong shift out of the Hong Kong dollar would also exert pressure on the currency's peg rate against the US dollar, which has been in place since 1983.

According to the survey, 23 per cent of respondents have more than 50 per cent of their savings in foreign currency, while 27 per cent said they had more than half their total assets in currencies other than Hong Kong dollars.

Forty per cent said they planned no change in their Hong Kong dollar assets over the next two years, 18 per cent said they would decrease their Hong Kong dollar assets and 20 per cent planned an increase.

"The level of foreign currency assets on the personal balance sheet is very high by international standards," said Mr Russel Napier, regional

strategist at Crédit Lyonnais Securities (Asia).

He cited the currency peg and uncertainty relating to political change after 1997 as the driving forces in diversification and argues that pessimism about post-1997 prospects is already discounted in savings patterns.

Pessimism on issues relating to the handover was revealed in the Chinese University survey. Fifty-nine per cent of respondents expected a rise in corruption after the handover, while almost half believed the efficiency of the new administration will decrease.

According to Mr Napier, diversification of assets ranged from holding US dollar deposits to purchase of real estate in international markets. "This has been quite common among higher income segments, but even at the lower end there have been shifts into foreign currency denominated assets."

Opinions are divided on the prospects for further capital shifts in Hong Kong.

"We have been seeing steady growth in Hong Kong dollar assets," said the chief executive of one local bank.

"If anything there has been a return to Hong Kong dollar assets over recent months," he adds, citing a pick-up in the property market as a sign of renewed investor interest.

For others, however, political shocks ahead of the handover could still trigger a strong outflow of capital.

One private banking executive said the choice of chief executive, who will govern the territory after the handover, would prove a decisive factor in investors' decisions.

INTERNATIONAL PRESS REVIEW

Tokyo media fight shy of Sumitomo affair

JAPAN
By Emiko Terazono

The Japanese press can hardly be accused of overplaying the Sumitomo affair. The country's newspapers have appeared reluctant to tackle Sumitomo Corporation's claimed \$1.8bn loss in the copper market, which it has blamed on a "rogue trader", Mr Yasuo Hamanaka, the company's former head trader.

As with some other sensitive issues, the Japanese press has been willing to cite coverage from UK or US newspapers, but has yet to deploy its own considerable reporting resources to provide a coherent explanation of a story that remains full of holes.

Using the foreign media allows the local media to avoid direct confrontation with the large companies and government organisations with which they have close and important relationships.

"What happened to the check system?" asked the *Asahi Shimbun*, a daily broadsheet, the day after the Sumitomo announcement.

The *Asahi* compared the case to last year's Daiwa Bank incident where a bond trader lost ¥110bn (\$1bn) from illicit trading on the US bond market.

Calling for Japanese companies to set up systems which can detect fraud and other "unnatural-looking trades", it also warned readers that losses at leading banks and companies were relevant to ordinary investors, who should be aware that every money-making opportunity contained risks.

The *Yomiuri Shimbun*, the broadsheet with the largest daily circulation, warned: "Do not let Japan's reputation fall any further." However, its coverage of the incident was pushed to the back pages.

The *Nihon Keizai Shimbun*, the business daily which prides itself on corporate scoops, has also been surprisingly quiet.

In an article last week, it noted that aside from Sumitomo, Chile's state-owned copper company, Codelco, and Citic, China's state run investment corporation, had also incurred large losses in trades related to the London Metal Exchange over the past few years.

It suggested that there was

The *Bunshun*'s description of Mr Hamanaka paints a picture of an alarmingly ordinary Japanese office worker. He was 185cm, not interested in drinking heavily or gambling, and his golf skills were mediocre.

According to the *Shukan Shincho*, another popular weekly, Mr Hamanaka's losses were caused by a showdown on the futures market with Mr George Soros, head of the US Quantum fund. Quoting traders in London, *Shincho* said



Headline in Japan's *Shukan Bunshun*: "Sumitomo Corporation's 'biggest embarrassment' - the truth about Mr Five"

an international conspiracy - a "Copper-gate" - and offered readers a theory that Mr Hamanaka could have been one of many who had fallen victim to a mysterious "ring inside the ring" - a secret trading group inside LME's ring members.

The populist weeklies, meanwhile, chose to focus on the man at the centre of the affair. Mr Hamanaka was "Sumitomo Corporation's biggest embarrassment" said a headline in the *Shukan Bunshun*.

It explained that while Mr Hamanaka blemished Sumitomo's name, the man nicknamed "The Hammer" and "Mr Five Per Cent" for controlling 5 per cent of trades in the world's copper market, was given the Sumitomo president's award three times for his contribution to earnings.

Sumitomo's losses could be as much as double the initial estimate.

The lack of close links with corporations and government agencies has tended to give the weeklies more freedom in their coverage. Both magazines suggested that Sumitomo knew more than it was letting on. The *Bunshun* quoted an industry trader implying that the company was involved in Mr Hamanaka's dealings and that he became a scapegoat.

The *Shincho* noted how Sumitomo's management had been hailing Mr Hamanaka, with the president seeking him to see for himself what a great trader looked like.

"Trying to convince the US and UK authorities that 'no one in the company knew' will not be easy," it pointed out.

Bangladesh parties boost prospects for stability

By Mark Nicholson, South Asia Correspondent

Sheikh Hasina, leader of the Awami League, was sworn in yesterday as Bangladesh's prime minister - ending 21 years of political opposition for the party forged by her father, Sheikh Mujibur Rahman, who led the state to independence after its war with Pakistan in 1971.

The Awami League was ousted from power by a 1975 military coup in which Sheikh Mujibur and most of Sheikh Hasina's closest relatives were slain.

It will govern now with the support of the Jatiya party, whose leader - General Hossain Mohammed Ershad - was "paroled" from jail for a few hours to attend the swearing-in.

The 64-year-old general, jailed on corruption charges after being deposed by a pro-democracy movement in 1990, said his party offered "unconditional" support to Sheikh Hasina, 49, who promised to run a government of "national

reconciliation" and "consensus".

The Awami League won 146 of 300 contested seats in the June 12 poll, 30 more than the defeated Bangladesh Nationalist party (BNP) led by Mrs Khaleda Zia. The Jatiya party won 22 seats.

The new government will boost its majority through a constitutional rule allowing the parliamentary election of a further 30 women MPs.

BNP leaders yesterday repeated allegations that the vote was widely rigged, notwithstanding unanimous reports from international observers to the contrary. "Our victory has been stolen," said Mrs Zia. However, she said her party would attend parliament.

The BNP's decision offers some promise that Bangladesh can enjoy a properly functioning parliament after two years of political stalemate and violence during which Sheikh Hasina led a series of protests and strikes against BNP.

The inexperienced Awami League now has to wrestle with the substantial problems

facing Bangladesh, one of Asia's poorest countries with a per capita gross domestic product of just over \$220.

The party's policies differ more in emphasis than substance from those of the BNP, which introduced a programme of economic liberalisation on taking power in 1991. The reforms, however, have been stalled by the past two years' political feuding.

Sheikh Hasina's campaign, bolstered in March by widespread peaceful protests from professionals, academics and bureaucrats, culminated in Mrs Zia's resignation on March 30 and installation of a "neutral, caretaker government" to oversee the June poll.

Awami League supporters have billed their victory as a personal triumph for Sheikh Hasina, who has led the party with near monarchical control since assuming its leadership in 1981. She was jailed several times for protesting against the military rulers who led the country between 1975 and 1980, when she was among leaders of a pro-democracy movement.

Pressure on LME grows

By Kenneth Gooding, Mining Correspondent

The London Metal Exchange will come under increasing pressure today to take action to ease the extreme tightness in its copper market in the wake of Sumitomo's claims that its senior copper trader concealed losses.

LME copper stocks are tightly held and this is forcing traders to pay hefty premiums for copper for nearby delivery. On Friday, there was a premium of \$100 a tonne between copper for immediate delivery and metal for delivery in three months.

Traders are also having to pay unprecedented premiums to roll short positions (contracts to sell) forward: \$20 a tonne to roll forward for one day and \$28 to roll forward for a week.

One trader complained at the weekend that

this resulted from the tactics of Mr Yasuo Hamanaka, the Sumitomo trader, who frequently squeezed the market by taking control of much of the available LME stock.

The trader suggested that Sumitomo had handed control of its LME copper stocks to banks as collateral for credit they were supplying. Consequently, the banks were not able to release metal to ease the tightness.

Other traders pointed out, however, that the potential problems in the LME copper market had been well signposted.

A year ago the LME executive was already warning about potential technical tightness. The executive took action in May and limited the cost of rolling forward a short position for one day.

Banks burnt in meltdown, Page 18

SKW TROSTBERG DIALOG INVESTORS

SKW records extraordinary sales and earnings growth in 1995

Further growth with speciality chemicals also expected in 1996

Dividend increase proposed

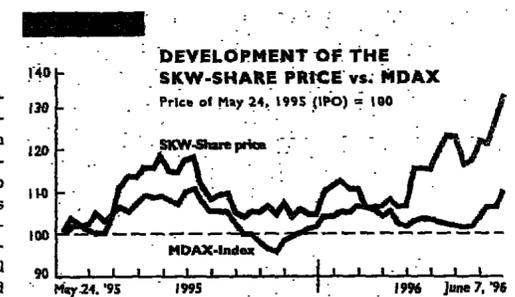
In 1995, the SKW Group posted the best results in the company's history, boosting earnings to DM 281 million from DM 169 million a year earlier.

Group sales surged 72% to DM 3.875 billion, which was largely attributable to the acquisition of the bio-activities of the French Sanofi Group, now SRI Systems Bio-Industries. Without acquisitions and divestments, SKW Group sales grew 7%. The three core divisions of SKW are strategically well balanced: with DM 1.625 billion, the Nature's Products Division accounted for the largest proportion of total group sales (+2%), followed by the Chemical Division with DM 1.258 billion (32%) and the Building Chemicals Division with DM 992 million (26%). All three divisions contributed to the record results.

FURTHER GROWTH IN 1996

Despite the less favorable economic environment, SKW will again increase sales and earnings in 1996. The Group aims to attain this growth both internally and through acquisitions.

Internal growth is to be achieved by strengthening market positions and efficient cost management which will enhance profitability of the three divisions. Essential for external growth are strategic acquisitions to expand our core businesses and open new markets.



three-quarters of total sales are still in Europe; markets in North America and the Far East, however, are contributing increasingly to Group sales.

HIGHER DIVIDEND, HIGH SHARE PRICE POTENTIAL

In order to enable SKW shareholders to participate in the company's successful development, proposed is an increase in the dividend from DM 0.875 (17.5%) to DM 1 (20%) per nominal share of DM 5. The dividend will be paid for the full year 1995 despite the fact that the company went public in May.

Leading market experts and institutions see considerable growth potential for SKW's share price and are therefore recommending buying the stock. They estimate that earnings per share for 1996 will rise 10-15% over 1995 (DM 2.03).

INTERNATIONALIZATION PROGRESSING SUCCESSFULLY

An important market of the future for SKW is the Asia-Pacific region. Expansion of its long-standing presence in the Far East through the founding of a new subsidiary in Singapore and the recent acquisition of a majority stake in a gelatine factory in China put SKW in a good position to profit from the high growth potential of the region. These steps document the developing internationalization of SKW. In 1995, the foreign share of Group sales rose from 35% to 54%. At present,



SKW TROSTBERG AG
Investor Relations
P.O. Box 1262, D-83303 Trostberg, Germany
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Fax (86 21) 86-2040
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LEGAL NOTICE

UNITED STATES BANKRUPTCY COURT FOR THE DISTRICT OF DELAWARE

In re: KALVAR MICROFILM, INC., ANACAMP INC., ANACAMP INTERNATIONAL, N.Y., FLORIDA A & C CORPORATION and INDEX DEVELOPMENT COMPANY, Reorganized Debtors.

TO THE HOLDERS OF 9% CONVERTIBLE SUBORDINATED DEBENTURES OF ANACAMP INTERNATIONAL, N.Y.:

On May 28, 1996, the Debtor's Third Amended Joint Plan of Reorganization (the "Plan") and the accompanying Disclosure Statement (the "Disclosure Statement") were filed with the United States Bankruptcy Court for the District of Delaware. The Plan became effective on June 4, 1996 (the "Effective Date").

Pursuant to the terms of the Plan, each Holder of 9% Convertible Subordinated Debentures due 1996 of Anacamp International N.Y. (the "Old 9% Subordinated Debentures") is entitled, upon receipt of certificates formerly representing the Old 9% Subordinated Debentures ("Certificates"), to the Disbursing Agent (EU Schroder Bank & Trust Company, One State Street, New York, NY 10034, telephone number (212) 850-2100), to receive, in exchange for such Certificates, a distribution consisting of New Common Stock and New Warrants. Specifically, each Holder of an Old 9% Subordinated Debenture Certificate is entitled to receive subject to all of the provisions of the Plan, including provisions with respect to fractional shares and fractional warrants, approximately (i) 21.83 shares of New Common Stock and (ii) 7.46 New Warrants, for each \$1,000 principal amount of Old 9% Subordinated Debentures.

In order to receive a distribution, each Holder of the Old 9% Subordinated Debentures must cause to be delivered to the Disbursing Agent its Certificates and a properly completed form of assignment, no later than two years after the Effective Date.

Holders of the Old 9% Subordinated Debentures may obtain the appropriate form of assignment to be submitted to the Disbursing Agent and instructions with respect to the delivery of their Certificates to the Disbursing Agent by contacting one of the following two institutions:

Deloitte S.A.
67 Boulevard
De la Woluwe
L-1070 Luxembourg
011-352-4882210

Ernst & Young
c/o Morgan Stanley Trust
Company of New York
Room 5000 E
Jamaica 151
8-1210 Broadway
011-212-224-2513

Dated: June 4, 1996
YOUNG, CONNOR, STANBURY & TAYLOR
Louis Dreyfus (US), INC.
110, Park Avenue, 20th Floor
P.O. Box 951
Washington, D.C. 20003-0951
(202) 571-1500

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By: The Moscow Narodny Bank, N.A. London, August Bank.
June 24, 1996

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NEWS: INTERNATIONAL

Arab leaders in Cairo warn that Middle East could slip back into violence

Summit insists on land for peace

By David Gardner in Cairo

Arab leaders believe they have sent a calm but unambiguous message to Israel from their summit in Cairo at the weekend: peace in the Middle East and any further rapprochement between Arabs and Israelis depend on Israel returning all Arab land it has taken in the wars since 1967. Otherwise, they say, the region will sink back into violence.

But the new Israeli government of Mr Benjamin Netanyahu, a coalition of rightwing groups, immigrants and religious fundamentalists, has said it will subordinate peace to Israel's security.

What the Arabs have said is the diametrical opposite: a Palestinian state with Arab Jerusalem as its capital, the dismantling of the settlements, and the return of the Golan and south Lebanon as the sine qua non of peace.

The previous, Labour-led coalition in Israel adopted the premise that the best guarantor of Israeli security was peace with its Arab neighbours, accepting the "land-for-peace" formula endorsed by the US and Russian-sponsored Madrid conference on Middle East peace of 1991.

Land-for-peace is the principle upon which the UN Security Council Resolutions requiring Israeli withdrawal from east Jerusalem, the West Bank, the Golan and Lebanon are based.

It is also the underpinning of the 1979 peace treaty with Egypt, the 1994 treaty with Jordan and the

1993 Oslo accords with the PLO.

Oslo has led to interim Palestinian autonomy in most West Bank cities and Gaza, but awaits "final status" negotiations on Jerusalem, borders, the right of return of Palestinian refugees and the future of the settlements.

Mr Netanyahu will undermine the entire basis of Middle East peace, the summit declared, if he tries to use Arab land for Israel's security. "Security cannot be achieved by the occupation of land and ignoring the rights of others," President Hosni Mubarak of Egypt, the summit host, told leaders from 19 other Arab states.

At Syria's urging, the Arab leaders said if Israel moved the goalposts on land-for-peace, the region could return "to a cycle of tension and violence", and they would be "forced to reconsider the steps taken towards Israel in the framework of the peace process, for which the government of Israel will bear sole and full responsibility".

This is not a threat, Arab officials were at pains to point out, but a statement of the obvious, which puts the ball in Israel's court. "We don't have to speak about alternatives at this stage," Mr Amr Moussa, Egypt's foreign minister, said late on Saturday. "He [Netanyahu] has stated his policies and we have stated our policies."

But this is the first summit the Arab world has managed to stage since Iraq - which was not invited - invaded Kuwait six years ago. The unity of the Arab nations, more talked

about than practised, is still very fragile.

Mr Mohammed Hassanein Heikal, the leading commentator and former Nasser intimate, said yesterday that the weekend's summit was "little more than a smokescreen" but that "the symbolism of Arab unity" remained important.

The unanimity of the "Cairo declaration" could not hide the divisions in Arab ranks, although Egyptian mediation papered these over. Syria - along with Lebanon, which is dominated by Damascus - has reviled Palestinian leader Mr Yasser Arafat and Jordan's King Hussein for breaking ranks and making separate deals with Israel. Jordan, moreover, accuses Syria of sponsoring terrorist organisations opposed to the king, while Damascus believes the Jordanians are working with Israel and Turkey to undermine Syrian President Hafez al-Assad.

Jordanian officials say some fences have been mended with Syria. But this does not alter the impression that King Hussein "has made his strategic choice", as one Arab commentator put it, to ally with Israel and Turkey. The Gulf states, moreover, led by Saudi Arabia, depend for their security on the US rather than their Arab brothers, as the 1990-91 Gulf crisis amply demonstrated.

A revealing sign of these persisting divisions was the summit's fudging on terrorism - seen as a threat by nearly all Arab states but as much as by Israel. The mainstream Arab view is that resistance to occupation is legitimate. But the

Official Communiqué of June 1996 Arab Summit

- 1. Any setback in the peace process will compel the Arabs to reconsider steps taken in the context of relations with Israel, for which the Israeli government will bear sole and full responsibility
- 2. All Israeli settlement activities in the occupied Syrian Golan Heights and the occupied Palestinian territories, including Arab Jerusalem, should halt and these settlements removed
- 3. To reach comprehensive peace, the question of Jerusalem and the Palestinian refugee problem need to be resolved, Arab Jerusalem should be the capital of an independent Palestinian state
- 4. Strong indignation is expressed at the interference in the internal affairs of Bahrain. Iran is called on to respect the sovereignty of Bahrain and to end its occupation of three islands claimed by the United Arab Emirates
- 5. Turkey is called on to reconsider its military agreement with Israel
- 6. All Arabs should oppose any policy that affects the territorial integrity of Iraq

mainstream Arab fear is that Islamic fundamentalists, the only groups which regularly launch attacks against Israel, could become the nemesis of many Arab regimes struggling to defend their legitimacy and closer relations with Israel.

Islamists are in the field in Egypt and Lebanon and in Algeria's savage civil war, are underground and violent in Bahrain and Saudi Arabia, depend for their security on the US rather than their Arab brothers, as the 1990-91 Gulf crisis amply demonstrated.

A revealing sign of these persisting divisions was the summit's fudging on terrorism - seen as a threat by nearly all Arab states but as much as by Israel. The mainstream Arab view is that resistance to occupation is legitimate. But the

less finished," says Mr Ahmed Korei (Abu Ala), architect of the Oslo accords and speaker of the Palestinian legislature elected in January. "But if the Israelis go against peace, everyone will be Hamas."

"It's going to blow up in all our faces," a senior Egyptian official says. "If we do not find a peace partner." When Hamas launched four suicide bomb attacks inside Israel in February and March, Egypt hosted an international "anti-terror" summit in Sharm el-Sheikh to buttress the peace process. That could not happen again if Mr Netanyahu persists with his programme because "that was based on a logic that we all agree on the peace process", the same official says, adding: "I truly believe we are in deep trouble."

Israel's new government showed its first split yesterday as ministers clashed over the need to compromise with Syria about the Golan Heights, Yaroslav Trofimov writes from Jerusalem.

The controversy began on Friday, when the moderate foreign minister, Mr David Levy, a long-time personal rival of the new prime minister, Mr Benjamin Netanyahu, suggested that Israel might meet Syria "half-way" on the Golan problem.

Damascus demands a total Israeli withdrawal from the heights, occupied in 1967, while the new Israeli government guidelines insist that retaining sovereignty over the Golan must be the basis of an eventual peace settlement.

Mr Levy's statement, taken as an indication that Israel may agree to a partial withdrawal from the Golan, was received with sympathy at the Arab summit in Cairo.

However, yesterday, after a day-long silence caused by the Jewish Sabbath, other Israeli officials hastened to disavow Mr Levy's conciliatory overture. His reaction seemed to indicate the beginning of a serious government split over the course of the peace process.

Mr Netanyahu's spokesman said: "To my knowledge, Mr Levy did not obtain a clearance for this statement from the prime minister. Only statements made by the prime minister reflect Israeli policy on these political issues."

Other ministers in Mr Netanyahu's government went even further. "There is nothing to compromise about on the Golan Heights. I don't think we have to compromise," said the minister of agriculture, Mr Rafael Eitan, a retired general who serves in Mr Netanyahu's inner security cabinet.

INTERNATIONAL NEWS DIGEST

Vietnam power plant deal

Vietnam has selected privately held Oxbow International Power of the US to construct a \$315m build-operate-transfer power plant in northern Vietnam, which could become the country's first privately financed power project, the semi-official weekly Vietnam Investment Review said yesterday.

Mr Bernard Cherry, Oxbow's president, was quoted as saying the company would start negotiations with the state power monopoly, Electricity of Vietnam (EVN), for a contract to build a 300MW plant in coal-rich Quang Ninh province. Hyundai of South Korea and American Electric Services (AES) had also been shortlisted.

The VIR said Oxbow would operate the plant for 20 years once it was commissioned in 1998. It would be fired by low-grade coal, which exists in abundance in Quang Ninh, home to a large coal-mining industry.

Industry officials said at the weekend that EVN had selected K&N Engineering of the US as consultant for the roughly \$500m Phu My Two Phase 2 plant, in southern Ba Ria-Vung Tau province. Part of K&N's job would be to develop BOT legislation for Vietnam.

World Bank targets poverty

World Bank staff and managers are to be judged by their success in reducing world poverty, the bank said yesterday, adding that it would introduce new pro-poor benchmarks for job evaluation as part of its efforts to improve the efficiency and effectiveness of its operations.

Helping developing countries reduce poverty is the central mandate of the bank and would henceforth be "the bottom line" in assessing staff performance, said Mr Koch-Weser, Managing Director for Operations. Mr Koch-Weser's comments coincided with the publication of a World Bank study of world poverty which found only modest success so far in poverty reduction.

The report says average incomes in developing countries have nearly doubled in the last 25 years. And over a generation, infant mortality rates have fallen and life expectancy risen: average life expectancy in the developing world in 1993 was 65 years, up from 56 in 1970, and infant mortality had fallen from 87 per 1,000 live births to 54 in the same period. But the proportion of people living in poverty has declined only slightly, with 29.4 per cent of the world's population living on under \$1 a day in 1993, down from 30.1 per cent in 1987.

Pauli Waldmeir, Washington
A summary of the study, *Poverty Reduction and the World Bank: Progress and Challenges in the 1990s*, is available by phoning (202) 458-1800 in Washington.

World Bank chief to lose key aide

By Patti Waldmeir in Washington

Mr James Wolfensohn, the World Bank president, is to lose his chief of staff in a high-level defection from the management team which he put together to direct a big reorganisation of the bank.

Ms Rachel Lomax, the former UK Treasury and cabinet office official who was one of Mr Wolfensohn's first appointees when he took over as president a year ago, is to leave the post of chief of staff in the president's office to become permanent secretary at the Welsh Office. The move will be announced by the bank later today.

World Bank officials said they regretted the move, which they feared would be interpreted as a vote of no confidence in Mr Wolfensohn and his controversial programme of internal reforms. They noted that Ms Lomax and Mr Wolfensohn had a stormy professional relationship, involving frequent and sometimes public disagreements. Other senior bank officials have complained of the volatile temper of their president, who they say is quick to anger and intolerant



Wolfensohn: 'good friend' of chief of staff

of criticism and who sometimes rebukes his subordinates in public.

They say Ms Lomax shared some of the same personality traits.

But Ms Lomax was yesterday at pains to stress that her departure was not motivated by a personality clash with her boss. "He's a good friend. I get on well with him," she said. She said she believed she had completed her task at the bank by helping him create a strong executive presidency committee with a sort of "cabinet office" composed of a large team of senior advisers. "I felt it was time for me to move on," she said.

But other bank officials said the move came at a time when Mr Wolfensohn's efforts to reform the organisation were

at a critical stage. After a year of considerable internal upheaval, bank staff are hoping that reforms will begin to show tangible effects.

It did not seem likely yesterday that a new chief of staff would be appointed to replace Ms Lomax, some of whose duties will be devolved to Mr Sven Sandstrom, one of the bank's managing directors. The outgoing chief of staff is expected to accompany Mr Wolfensohn as planned to the summit of the Group of Seven countries in Lyons this week.

Speculation in political circles in the UK has focused on Ms Lomax's future career. She has been mentioned as a possible candidate to become the first-ever female cabinet secretary under a Labour government.

World pharmacy drug purchases January-March 1996 (\$bn)

	US	Japan	Germany	France	Italy	UK	Spain	Canada	Belgium	Netherlands
Cardiovascular	2,132	797	941	894	454	262	249	172	97	89
Alimentary/Metabolism	2,269	1,057	715	641	364	316	213	141	77	112
Central nervous system	2,678	275	503	511	232	240	150	151	86	63
Anti-infectives	1,567	640	341	518	334	111	177	70	70	31
Respiratory	1,615	517	522	373	181	229	154	90	60	73
Blood Agents	725	488	188	254	129	37	74	63	24	28
Genito-urinary	939	105	246	214	104	89	46	51	24	29
Others	2,708	1,478	902	607	448	297	228	163	85	81
Total	14,730	5,353	4,356	4,012	2,247	1,567	1,228	901	523	504
% Change**	6	-4	7	10	12	9	8	2	10	2

Source: IMS International. *Non-hospital market only. **Increase excluding currencies.

Drugs sales growth falls

By Daniel Green

World drugs sales growth slowed sharply in March as a result of destocking in Japan and in spite of good growth in Europe, according to figures published today.

Sales of prescription drugs in the world's 10 biggest markets in the first quarter of 1996 were worth \$35.5bn, 5 per cent above the figure for the first quarter of 1995.

But the growth rate for the first two months had been 7 per cent, and was 9 per cent in the first month of 1996, according to figures compiled by IMS, the specialist drugs sector market research company.

Sales for the quarter in Japan, the world's second biggest market, fell 4 per cent to \$5.4bn, excluding exchange rate effects. This was partly because Japanese distributors kept stocks to a minimum until the spring's mandatory

price cuts were completed.

There was also a 30 per cent fall in sales of anti-infective drugs (mostly antibiotics) and an 18 per cent fall in respiratory drug sales. Both showed declines partly by comparison with high sales in early 1995, the result of an unusually serious outbreak of influenza.

European sales growth - up 9 per cent to \$14.6bn - was driven by recovery in the French and Italian markets. In Italy especially, government measures to control healthcare spending in 1995 have not been repeated this year.

Sales in France rose 10 per cent to \$2.2bn, sales rose 12 per cent to \$2.2bn, sales rose 12 per cent to \$2.2bn.

Other main European markets also saw good growth. In Germany, sales rose 7 per cent to \$4.2bn, while in the UK, sales rose 9 per cent to \$1.6bn.

The world's biggest market remains the US, where sales grew 6 per cent to \$14.7bn.

Much of the growth outside Japan was the result of the increasing use of nervous system drugs, led by Prozac, the anti-depressant made by Eli Lilly, the US drugs company. Nervous system drug sales rose 13 per cent to \$4.5bn for the quarter.

Also growing quickly was the category called blood agents, which includes a fast selling new class of drugs designed to cut cholesterol levels in the blood. Sales of blood agents rose 16 per cent to \$2bn.

The biggest medical category for drugs is in heart disease, but the sector is subject to heavy competition as patients on older drugs expire. Sales rose 4 per cent to \$6.1bn.

The second biggest sector, digestive system drugs, includes two of the world's biggest selling medicines, Zantac and Losec (sold as Prilosec in the US). Digestive system drug sales rose 8 per cent to \$6bn.

Nigeria seeks to avert sanctions

By Paul Adams in Lagos

A Nigerian delegation in London will today begin the country's bid to stave off further sanctions by the Commonwealth, after its suspension from the group of former British territories last November.

The Nigerian regime of Gen Sani Abacha sees the two-day Commonwealth summit as a chance to end its international isolation after a United Nations special report last month gave some encouragement for the military's three-year programme of transition to civilian rule.

While the Nigeria issue is a big test of how the Commonwealth applies its Harare Declaration on good governance and human rights, the outcome of this week's talks will also affect the stance of Nigeria's main trading partners, the EU and US. Both are reluctant to apply economic sanctions against the oil-rich country and are looking to the Commonwealth to take the lead.

Without such action foreign pressure is likely to have little effect. After suspending Nigeria's membership, amid international condemnation of the execution of Mr Ken Saro-Wiwa and other Ogoni activists, the Commonwealth appointed an action group of eight foreign ministers chaired by Zimbabwe to visit Nigeria regularly and review its record

on human rights and progress towards civilian rule before possible expulsion next year.

But the Nigerian foreign minister, Mr Tom Ikimi, barred the ministerial group from entering Nigeria, and a private invitation to the Zimbabwean foreign minister, with the promise of an audience with Gen Abacha, was then denied. This provoked fresh sanctions threats including the downgrading of all diplomatic missions, bans on direct air links and freezing of the military's private assets offshore.

While many Commonwealth nations have little to lose from sanctions against Nigeria, its main trading partner and former colonial ruler, the UK, says it supports constructive dialogue and appears to have distanced itself in recent months from a tougher line on Nigeria.

British companies are the largest investors and exporters to Nigeria. At today's meeting the Nigerian delegation, which includes a current and former ambassador to the UN, will argue that it has implemented two of the UN report's recommendations, relating to the civil disturbances tribunal (which convicted the Ogonis) and the right of law courts to summon prisoners detained for "reasons of state security" without trial.

The Commonwealth ministers are likely to be sceptical.

Rough justice in California

Christopher Parkes on 'three strikes' and other legal battles

The emasculating of California's "three strikes" law by judges of the state supreme court marks a big victory in the state judiciary's fight to regain the right to judge.

The seven mainly conservative Republican judges ruled last week that judges may disregard previous convictions when giving sentences, weakening the "three strikes and you're out" law aimed at habitual criminals.

Rather than make out mandatory 25-year-to-life sentences to third-time felony offenders and double the customary terms for second-time offenders, the everyday arbiters of courtroom justice may now return to assessing punishments on a case-by-case basis.

The ruling, from a court which, according to Judge Stephen Reinhardt, a California-based member of the federal judiciary, has traditionally given a lead to the entire country, may also prompt changes in the application of variants of "three strikes" laws in 19 other US states.

That it would be unconstitutional, and certainly not by me," says one federal appeals judge who sits in 11 western states.

Delaying tactics, arbitrary rejections of jurors, specious arguments and "a total lack of respect" for the person on the bench and procedures are now commonplace in Californian courts, he says.

Judge Reinhardt, who this month described last year's O.J. Simpson verdict as "astonishing", was fiercely critical of the prosecution's handling of the case. They had become rich and gained celebrity status on the basis of a lost case "which most people thought could not possibly be lost", he told the Beverly Hills Bar Association.

That on the basis of this trial they are held out at expert practitioners, role models and examples of dedicated public servants "simply defies the imagination," he said.

Politicians eager to satisfy popular demands for retribution, but not to levy taxes necessary for prosecution and imprisonment of criminals, have also been accused of depriving the non-criminal branch of the judiciary of necessary resources.

A recent hearing in San Mateo County was told that although 45 per cent of the superior court's case load comprised family and other non-criminal cases, 87 per cent of

available finances was spent on criminal proceedings.

The financial effects have been even more striking in Los Angeles, where 60 per cent of the state's "three strikes" prisoners, where prisons are crammed at 180 per cent of their intended capacity.

The local authority, which has a newly built jail standing empty for want of operating funds, is currently pleading with the state government for \$170m in subsidies merely to process its backlog of more than 6,000 second- and third-strike cases awaiting trial.

At the end of April 1,855 people were serving "three strikes" sentences in California and a further 17,000 were imprisoned on extended second-strike sentences. Defence lawyers predict a flood of appeals following last week's decision, which will snarl the system even further.

The number of cases pending - and the number of people held on remand - has built up partly because people arrested for a second or third time on felony charges now routinely plead not guilty. The option of a plea bargain and a lighter sentence is no longer open and a protracted full trial is the only hope of avoiding a life behind bars.

But many three-strikers have already spent much of their lives in prison.

In courtroom jargon they are already "doing life on the installment plan".

Archbishop Tutu steps down

Archbishop Desmond Tutu (above), the flamboyant South African cleric who mobilised international opprobrium against the apartheid regime, yesterday retired as head of the Anglican Church in Southern Africa.

At a farewell service in Cape Town, President Nelson Mandela praised the 64-year-old archbishop for his role as "an effective voice of the people of South Africa when so many of their leaders were imprisoned, exiled, banned and restricted" during the harsh years of emergency rule.

Mr Tutu will devote himself full time to his new role as head of South Africa's Truth and Reconciliation Commission, appointed to investigate human rights abuses committed during the apartheid era.

The 1984 winner of the Nobel Peace Prize was denounced by the South African media for his anti-apartheid activities during the 1980s, but became the focus of international attention when he was appointed the country's first black archbishop in 1986.

Mark Ashurst, Johannesburg

Thai rates may come down

Thailand's embattled central bank governor, Mr Vijit Sripint, has given commercial banks the green light to lower lending rates, a signal that the country's year-long policy of tight money may soon be over.

"The market indicates that the rates can come down," said Mr Viji. "Manufacturing production, private investment and inflation have been declining since January and deposit rates have already started to fall."

High interest rates have been the anchor of a central bank policy to engineer a slowdown in the booming Thai economy, which last year threatened to overheat. But as the central bank has no real direct mechanism to keep interest rates high, the policy depends on the willingness of the country's commercial banks to follow guidelines and suggestions from Mr Viji.

Thailand's cabinet is expected to approve plans for the country's first commodities futures exchange, which will initially deal in rice and natural rubber, the country's two largest agricultural exports.

Once cabinet approval is granted early next month, the proposal will go before the full parliament, which should endorse it. Authorities see the exchange as a way to increase the price paid to farmers for commodities.

Strike hits Pakistan

Business activity across much of Pakistan was disrupted yesterday by a strike called by the PML (Pakistan Muslim League), the country's main opposition party. The response to the strike was seen as an expression of resentment against the June 13 budget announced by the government of Mr Benazir Bhutto.

The budget proposed tough new measures including the extension of a general sales tax to more than 200 goods. Many business people have complained at the severity of new taxes, aimed at raising Rs40.9bn (\$1.7bn).

Economists say the government aim of single-digit inflation now appears beyond reach.

Farhan Bokhari, Islamabad

Pope speaks to German Jews

Pope John Paul continued the controversy about the Catholic church's behaviour towards the Nazi regime when he unexpectedly left out a passage of a prepared speech and later told leaders of Germany's Jewish community that "too few" Catholics had resisted Adolf Hitler's reign of terror.

During a mass on Saturday in the northern German town of Paderborn, the first during a weekend visit to Germany, the pontiff dropped a part of his sermon which said the "whole Church" had put up resistance to the Nazi regime. That passage contrasted with a statement by German bishops last year lamenting a "profound failure" of Catholics to stop the spread of anti-Semitism during the Nazi era.

In Berlin, the pope did, however, beatify Bernhard Lichtenberg and Karl Lehner, two Catholic priests who died after being in concentration camps. *Michael Lindemann, Bonn*

NEWS: THE LLOYD'S SAGA

Mix of greed and catastrophe ended in grief

Lloyd's struggle for its future enters the final chapter this week. Names have been sent details of the recovery plan and five traumatic years may be about to result in one of the biggest corporate turnarounds

The story of how Lloyd's of London ran up losses of more than £3bn, reported in the past five years, covers most human failings: greed, recklessness, incompetence, anger and malice are all there in good measure.

Pain and grief, too, have been inflicted on many of the 34,000 Names - the individuals whose assets have traditionally supported the insurance market. Future social historians will look back on the impoverishment of British middle-class families drawn, knowingly or unwittingly, into the Lloyd's nightmare.

At the root of the problems is the unique structure of the 300-year-old insurance market. Since its establishment in Edward Lloyd's City of London coffee house in the 17th century, Lloyd's has encouraged entrepreneurs and gentlemanly buccaneers prepared to take big risks.

In any insurance business, rewards can be great; if there are no policy claims, the insurance premium is pocketed for little effort. But when claims exceed expectations, losses mount. At Lloyd's the volatility is greater still because the market has specialised largely in insuring the biggest risks. And Names trade with unlimited liability - meaning that they are vulnerable to their last collar stud.

But there are other factors in the Lloyd's debacle. First, in

the late 1980s and early 1990s, it was struck by an unprecedented succession of severe natural catastrophes, including some of the biggest storms to hit Europe, the Piper Alpha North Sea oil disaster and US hurricanes.

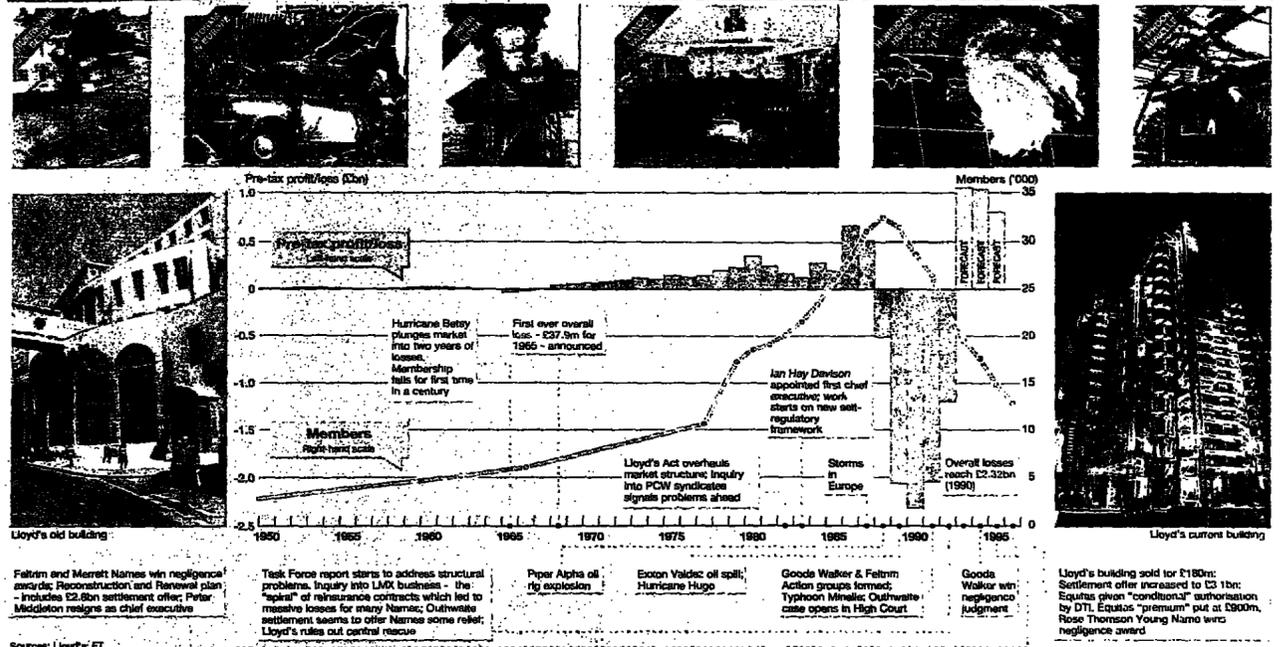
Lloyd's was not the only insurer affected but the way it operated exaggerated conventional difficulties. The rapid expansion of the market during the early 1980s had led to overcapacity, and in the search for business Lloyd's syndicates had "reinsured" each other - in effect, providing insurance against excessive losses. This created a "spiral" which, in the words of Mr Justice Phillips - who in October 1994 ruled in favour of the badly affected Gooda Walker group of Names - was "like a multiple game of pass the parcel".

Mr Michael Deeny, the chairman of the Gooda Walker action group, said: "The parcel turned out to be a timebomb that exploded in our faces."

A second factor explaining Lloyd's losses was the massive rise in US pollution and asbestos-related liabilities prompted - certainly in the eyes of many Names - by weaknesses of the US judicial system, which allowed an unforeseeable escalation in damages awards, including retrospective.

Again, Lloyd's unique structure exacerbated the problem. Because syndicates are reformed each year, a mecha-

Rise and fall of the insurance market



Fellows and Members Names win negligence awards; Reconstruction and Renewal plan - includes £2.8bn settlement offer; Peter Middleton resigns as chief executive

Task Force report starts to address structural problems; Inquiry into LMX business - the "spiral" of reinsurance contracts which led to massive losses for many Names; Outwaste settlement seems to offer Names some relief; Lloyd's rules out central rescue

Piper Alpha oil rig explosion; Exxon Valdez oil spill; Hurricane Hugo

Gooda Walker & Fellows Action groups formed; Typhoon Mirinae; Outwaste case opens in High Court

Gooda Walker win negligence judgment

Lloyd's building sold for £180m; Settlement offer increased to £3.1bn; Equitas given "conditional" authorisation by DTI; Equitas "premium" put at £900m; Ross Thomson Young Marmot wins negligence award

Sources: Lloyd's, FT

anism is needed to close accounts annually. This is achieved by "reinsuring" one year's account into the next - the so-called "reinsurance to close". Lloyd's reports three years in arrears but even then it is often uncertain what liabilities might still be incurred. Industrial diseases can take many years to emerge, and longer to result in court awards.

That makes it difficult to judge the correct price for the reinsurance to close. As a result, Lloyd's became a lottery. Names who were unlucky enough to join syndicates at the time when underwriters realised that massive increases were needed in their reserves found themselves facing unexpected demands for cash.

The deep suspicion of many Names is that knowledge of the asbestos problem was concealed, allowing insiders to escape big losses and leaving the flood of Names who faced the market in the 1980s to bear the brunt. This highlights a third factor explaining Lloyd's losses - the management and regulatory failure of Lloyd's leaders which

allowed greed to overtake reason. Court actions against Lloyd's central organisation has not generally succeeded but damning judgments against the agencies that ran syndicates and handled Names' affairs point to serious oversights. Professional standards were allowed to slip. As the catalogue of failings at Lloyd's began to surface,

angry Names formed themselves into action groups to mount legal claims for compensation. They also began to refuse to pay bills. A number of legal challenges were made to the market's right to collect debts and the impact built until pressure on Lloyd's finances became acute. All the evidence suggests that Lloyd's has come perilously close

to being declared insolvent. When Mr David Rowland, its chairman, unveiled the market's recovery plan in May last year, he said the alternatives were "stark". Most at Lloyd's now accept that if the plan is not approved by Names this August, it will almost certainly have to cease trading.

Ralph Atkins

THE PLAN - By Ralph Atkins

Complex deal wins over most of the losers

Lloyd's recovery plan, called Reconstruction & Renewal, is one of the most complex deals ever negotiated in commercial history. But the effort involved has not been without reward.

The indications are that the deal is winning wide support, at least among non-US Names. Mr Michael Deeny, a prominent representative of those worst hit by Lloyd's losses, has told Names: "The war has gone on long enough, it is time to make peace."

The reasons for the plan's complexity, and why it has a good chance of success, are twofold. First, Lloyd's realised after the failure of an earlier settlement offer in 1994, worth what now seems a meagre £900m, that it was not enough simply to offer money.

The biggest worry for many of the 34,000 Names is the uncertainty over their Lloyd's liabilities. US asbestos and pollution claims could stretch decades ahead. Some 21,000 Names have stopped underwriting but have been trapped on "open" years - accounts

which cannot be closed because of the uncertainties. Second, Lloyd's has tailored the plan, and its financing, to win support from the broadest range of Names possible. That search for consensus has resulted in a plan which, in the words of one closely involved in the negotiations, "has at least 178 different faces".

At its heart is a proposal to effectively split off "old" Lloyd's and create a new market. This involves setting up Equitas, a giant reinsurance company which Lloyd's plans to take responsibility for billions of pounds of mainly US liabilities - including the asbestos and pollution claims.

Equitas offers potentially significant economies of scale in generating income on investments and collecting on reinsurance taken out by Lloyd's syndicates to protect against big losses. More importantly for Names, it will cap their liabilities and allow them to leave the market.

Much of the funding for Equitas would come from

The Paying Names' Action Group, which represents those who have paid their losses, threatened yesterday to use a number of "legal options" to obstruct the recovery plan if extra help were not provided for those Names who still reserves already maintained by Lloyd's syndicates. But Names would also pay a premium to Equitas to have liabilities on insurance policies sold before 1993 "reinsured".

Helping Names to pay Equitas bills are the substantial profits earned by Lloyd's recently but not yet reported under its system of accounting three years in arrears. More important, however, is a £3.1bn settlement offer which is also intended to persuade Names to drop litigation. This is crucial because the pursuit through the courts of damages is crippling debt collection.

The £3.1bn is being financed with £900m from "errors and omissions" insurers which provided insurance cover to

group leaders. This helped ensure broad support for the plan. Mr David Rowland, Lloyd's chairman, and Mr Ron Sandler, the chief executive, spent long hours with Names' leaders debating the terms of the deal. The aim has been to ensure most action groups of litigating Names fare at least as well as they would by continuing legal action. As a result, the main groups have been brought on side.

But as important in boosting the chances of success has been dramatic revisions in the cost of Equitas. Early estimates suggested the total extra premium payable by Names would be about £1.9bn. Lloyd's feared that might rise steeply. In the event, actuaries concluded that the £1.9bn was far too cautious. Latest figures suggest the Equitas premium will be more than £1bn lower.

The extra resources freed have been aimed at litigating Names and "honourable members" who have paid all their debts. Under complex proposals bolted on to the original

allocation formula, 90 per cent of Names should have found their "finality bills", despatched last week, lower than March estimates. Some 12,000 Names would be paid money back. In total, Lloyd's is seeking £385m in new money.

But some Names will still face big bills and the prospect of ruin - particularly the elderly who have sold assets to meet Lloyd's cash demands.

Where Names cannot afford their bill, extra means-tested help has been made available. But Lloyd's has also drawn up plans to protect the homes and incomes of the worst affected.

Determining whether enough Names have accepted the deal will also be complex. Lloyd's must ensure sufficient funding for Equitas and be confident that most litigation would be dropped. Much of the £3.1bn settlement offer has been pledged on the basis that legal action is halted. This makes it impossible to specify a minimum level of support required. The deadline for acceptances is August 28.

When Mr Philip Feigin, the top Colorado securities regulator, visits the home of Lloyd's of London tomorrow he will be carrying a warning.

Mr Feigin will be heading a delegation of the North American Securities Administrators' Association, a group whose members oversee the country's state-level securities laws. In common with 10 other US states, Colorado has filed a legal complaint accusing Lloyd's of unlawfully selling securities within its borders.

Now, the NASAA says, more than 20 other US states are preparing to start proceedings of their own - a move that threatens to tangle the London market further in what has already become a convoluted legal web. Taken together, the US legal actions - and the strident opposition of a sizeable proportion of American Names - represent the biggest single threat to the market's restructuring plan.

The new wave of state-level legal actions will come, says the NASAA, if Lloyd's fails to "take enough action" to meet the regulators' concerns. Just what that means is not yet clear, but it seems certain that the market's authorities will be under pressure to make further concessions to US Names in the coming weeks.

That presents Lloyd's with a dilemma. The market's executives have said they cannot treat US Names differently from those in other parts of the world. In any case, American Names are not covered by the country's securities laws, Lloyd's says, since becoming an underwriter at the market does not constitute "making an investment". This interpretation of US law has never been put to the test but could well be in the coming months.

But the tide of anger against Lloyd's is running higher in the US than it is elsewhere in the world - and many US Names have made clear that they are prepared to use the formidable US legal system to escape further liabilities. Lloyd's says that more than half of US Names support its proposals, but indicated last week that it may have to do without the support of a substantial number of Americans.

Underlying this revolt is a classic culture conflict between the old and new worlds. Many US Names are antipathetic to what they see as English high-handedness in the way they have been treated. They also claim that Lloyd's has put institutional survival above

THE US - By Richard Waters in New York

Anger in the states poses biggest threat

the well-being of individual Names.

"Some people [in the US] simply aren't going to co-operate with the plan," said Mr Roderick McDonald, a US Name who supports the Lloyd's proposal. "They want to bring the institution down."

At this stage the state securities regulators say they do not plan to do anything to interfere with the ability of US Names to make their own decisions about whether to accept the Lloyd's restructuring proposal. That at least clears the way for Lloyd's to put its case to Names in the US this summer.

However, the actions of the NASAA have given heart to the opponents, strengthening their hopes that, by holding out longer, they can reduce their losses.

A legal challenge on a different front has also put Lloyd's on the defensive at what is a pivotal moment. Until now, US federal courts have always upheld a market rule that requires all Lloyd's disputes to be heard in an English court. That principle could now be in danger.

The latest test of the Lloyd's rule in a federal appeals court - known as the Richards case - unexpectedly won the backing of the Securities and Exchange Commission two months ago. Americans, the federal agency said, should be able to fight for their rights in US courts.

State-level securities and insurance regulators have lined up on opposite sides over the Richards case. Insurance regulators, fearful for the solvency of some US insurers if Lloyd's were to fail, have swung behind the insurance market, while Lloyd's policyholders have also added their voice.

In one filing with the court, the United Policyholders group argues: "For well over a century, insurance regulation has been designed to protect policyholders - insurance company investors have never before been preferred over policyholders."

The NASAA, for its part, threw its weight last week behind the SEC's position.

If Americans do win their day in a US court, "it would certainly open a floodgate of litigation against Lloyd's", said the Association of Lloyd's State Chairmen, a group of Names opposed to the market's reconstruction plan.

That, for Lloyd's, could spell disaster.

Ralph Atkins

The fortunate and the unfortunate tell their stories



PETER VIGGERS: Conservative MP for Gosport since February 1974 and former Lloyd's council member.

"I was a banker in 1978 when a colleague of mine said: 'Why don't you get involved?'. When I was a minister earning £25,000 a year it was extremely helpful to have a cheque from Lloyd's."

"It is crucial to have a members' agent you can put your trust in. I have always been cautious and careful."

"I have not had any serious problems, and that is all credit to my agent. My underwriting experience since 1973 has been constantly cautious and really quite successful. There have been some bad years."

"It has been traumatic for all of us. Everyone of us knew that if Lloyd's went down we would all be ruined. It was as simple as that. Every Lloyd's member has discussed with their wife or whatever what would happen if it went bust."

"Lloyd's is now much changed. There are different kinds of controls and regulations now."



THE DOWAGER LADY DELVES BROUGHTON: chairs the High Premium Group, representing Names each underwriting more than £1m of business.

"We all knew Lloyd's was high-risk; we did not know just how high. It is definitely not suited to those who depend on Lloyd's profits for school fees or their daily bread. I worked hard in choosing my syndicates. I have made mistakes and some very large losses. But I am fortunate in being able to pay up and carry on trading."

"David Rowland is doing a fantastic job. I believe the R&R plan will go through and Lloyd's is already being seen as a very attractive investment."

"The settlement offer is not fair. We always knew it could not be. It is as fair as possible considering the interests of so many groups and the limited cash available."

"I have not met one member of the High Premium Group considering stopping underwriting. The HPG works well alongside spread corporates at Lloyd's."



TOM BENYON: former Conservative MP, director of the Society of Names, representing loss-making Names.

"My wife and I suffered horrendous losses on the Warflow syndicates. We couldn't believe that the cavalier attitude of our agents was an isolated example. They weren't. Three years later it became clear how bad the problems were and I helped found a number of Names action groups."

"A £2.1bn solution for Names is a huge victory. It is the best that Names are going to get. They are in the last chance saloon. The paradox is that Names have destroyed their market. The agents at Lloyd's are going to think, 'right, if that's the way you want to behave, we don't want you. We will go for corporate investors'. By the end of the century I don't think there will be any traditional Names left."

"Lloyd's affairs have taken over my life. I will be glad when it's all over. There are other things that my wife and I want to do with our lives. I have a lot of other business interests."



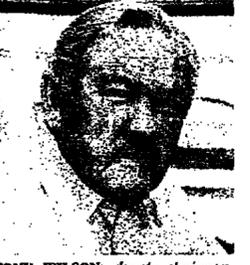
MARIE-LOUISE BURROWS: chairs the Lime Street Names Action Group, whose members' average losses have exceeded £1m each. Began underwriting in 1980.

"In 1986 my husband, who joined Lloyd's after me, got a bill for £74,000 for one of his syndicates. We thought: 'Gosh, what if we had both been on that syndicate?'"

"When we met our agent for lunch he was furious at our suggestion that he wasn't acting in our best interest. It was very acrimonious."

"When Names with the Lime Street agencies realised the scale of their losses, there was blind panic. Fear was the overriding thing. To be wiped out late in life, when you are approaching retirement, is terrible. Two of our members committed suicide."

"Lime Street Names got together to pool experiences for the first time in June 1991. I'm very worn. It ruined my marriage. It has been a traumatic experience. For me it has been easier to try to be a prop for others than to look at my own problems."



TONY WILSON: deputy chairman, Wriis Response Group, which has sought to defend Names against legal moves by Lloyd's to collect debts.

"In the middle of 1991 when I received many cash calls for losses in the 1989 year, I realised I had made a big mistake joining Lloyd's. Now I have no money. I have paid nearly £600,000 and technically still owe them a further £900,000."

"It has taken over my life. I feel particularly bitter because I won a court judgment covering all my losses but the Lloyd's agencies' insurance cover is not there to pay the bill."

"R&R is an attempt by Lloyd's to get rid of its past problems and to be able to trade into the future. I don't think that they could care less about the Names that they have busted."

"Whether I accept will depend on what I'm required to pay. I haven't applied for the means-tested help available to the worst-hit because Names shouldn't have to rely on the charity of Lloyd's to get them out of the problems Lloyd's has created."

NEWS: UK

Government will soon announce 'Union Jack-wrapped package of arms orders'

Defence deals worry US companies

By Bernard Gray, Defence Correspondent

The UK government intends to favour British contractors when it awards more than £12bn (\$18.4bn) of defence equipment work in the next few weeks. US contractors fear that they are being shut out of competitions because the UK cabinet has decided to boost domestic producers in what one Ministry of Defence official described as a "Union Jack-wrapped package of arms orders".

The package will be marketed by ministers as the triumph of lean and efficient British manufacturing in open competition with international defence giants. Ministers have also been keen to ensure that the orders preserve manufacturing jobs and bolster British defence companies in the run-up to the general election.

Winners likely to be in Europe

Contract	Value	Lead UK/EU contractors	Lead US contractors	Likely winners
Before Commons recess (July)	£9bn	BAA - GEC		BAA - GEC, subcontractors
Maritime patrol aircraft	£22bn	BAA - Boeing, Rolle-Foyon	Lockheed Martin - GEC	BAA - Boeing - Rolle-Foyon
Cruise missiles	£850m	BAA - Matra, Daimler-Benz	Hughes, McDonnell Douglas	BAA - Matra
Anti-tank missiles	£700m	Aerospace - Bofors		Hunting
Mariner landing ships	£900m	GEC - VSEL		GEC - VSEL
Before 1997 gen election	£3bn	GEC - Rolle-Foyon		GEC - Rolle-Foyon
Hunter-killer submarines	£900m	EU team led by BAA	Hughes	EU team led by BAA

the summer next month. However, a debate has started between cabinet ministers about staging the announcements over the next few weeks to extract maximum political capital from the orders. A further £4bn of defence orders for submarines and missiles is likely to be placed early next year.

If several technicalities can be sorted out in time, the largest single order to be announced this summer will be the start of production for the £35bn four-nation Eurofighter programme. Manufacturing for the UK will be worth about £9bn to British industry, with the first £1bn to £2bn being spent over

the next 18 months on building manufacturing facilities at British Aerospace and GEC factories. Provided final details can be agreed with industry and the other Eurofighter partners, Germany, Italy and Spain, the UK government intends to give the go-ahead for the project this summer. However, last-

Telecoms giants buy design licences

By Alan Carne in London

The Technology Partnership, a small UK research company, has secured worldwide approval for a design breakthrough expected to halve the cost and double the recharging interval of the next generation of mobile telephones.

About 20 companies across the world have bought licences costing up to £1m (\$1.54m) each for microchip and software designs developed by TTP, a contract research company based in Cambridge in eastern England. The manufacturers that have developed or are developing phones based on the technology include Toshiba of Japan, Daewoo of Korea, Hagenuk of Germany and Aselsan of Turkey.

The TTP designs are based on the GSM (Global System for Mobile Telephones) technology for digital mobile telephony which is now standard throughout Europe and much of the Asia Pacific region. Up to 100m GSM handsets are expected to be in use by the end of the decade as digital telephony replaces older analogue systems.

TTP-based handsets last for a working week without recharge, about twice as long as conventional digital phones, and cost about £100 at the factory gate, half the price of phones from companies such as Nokia or Ericsson. Shop prices are often much lower than factory gate prices because of dealer incentive payments.

Acceptance of the TTP technology has been delayed for almost 18 months by a squabble over European technical standards. However, TTP was awarded "type approval" last week by the German technical testing organisation, BZT.

Acceptance by one test organisation confers universal acceptance because GSM is a European and world standard.

Dr Tony Milbourn, head of computers and communications for TTP, said the intention was not to license the technology to current leaders in digital telephony such as Nokia of Finland, Ericsson of Sweden or Motorola of the US. The company is aiming at manufacturers anxious to compete in mobile phones but deterred by the cost of developing their own technology from scratch.

UK NEWS DIGEST

Car output for export up 10%

Car output for export rose 10.6 per cent, year-on-year, in May to leave the industry on course for another 20-year production peak in 1996. The export performance more than compensated for weakness in the UK market, leaving total output for the month 0.5 per cent higher at 131,393. Total lifted total car output for the first five months of the year to 688,344, a 2 per cent rise over the corresponding period of 1995. Within that total, output for export was 3.4 per cent up at 383,082.

Production of commercial vehicles is also running ahead of year-ago levels, according to figures from the Office for National Statistics. May's commercial vehicle output, at 22,188 units, was 3.2 per cent ahead of May last year, with production for export 8.6 per cent higher at 9,719.

However, weakness in some UK market sectors such as heavy trucks left total commercial vehicle output for the first five months only 0.1 per cent higher, at 106,637. Production for export over the five-month period was 14.9 per cent higher, at 53,508.

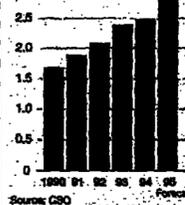
Pop music may rebound

British pop music may be poised for a resurgence in North America as new acts such as Oasis and Bush succeed the "dinosaur" rockers from the 1960s and 1970s who still dominate UK music exports. Music has been one of the UK's largest sources of exports since the 1960s, but in recent years new British bands have sold poorly in North America, the world's largest music market. A study of the music industry published today by Media Research Publishing, the research consultancy, suggests that the tide may be turning. Only 26 albums from UK acts have reached the US Top 10 since 1993, and 18 singles. Almost all of these albums came from long established bands such as the Beatles and the Rolling Stones.

British bands have fared much better in North America during the opening months of this year with five UK albums reaching the US Top 10 against four in the whole of 1995. Two of the 1996 hit albums were by musicians in their 20s, (Who's the Story) Morning Glory? by Oasis and 16 Stone by Bush. There has also been an improvement by British acts in the US singles chart.

Rise in clothing sales to Asia

British clothing manufacturers may be depressed about the country's reluctant consumers and erratic weather, but markets elsewhere are proving much brighter. Exports of clothing jumped by a fifth last year to an estimated £3bn (\$4.5bn). The growth reflects survival strategies for producers determined to continue selling in the UK, as well as expansion into markets elsewhere. The largest rise came in trade with Morocco, as suppliers to the Marks & Spencer retail chain set up plans to take advantage of low labour costs by exporting partly-finished garments to Morocco, where fills, embroidery, and other accoutrements are added. UK producers are maintaining their more labour-intensive lines in the face of fierce price competition. But the rise is not just a story of outsourcing. Sales to countries such as South Korea - which 20 years ago was cutting a swathe through the British clothing and textile industry with its cheap exports - are rising, too. The cachet of British brands, long a feature in Japan, is spreading.



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Nuclear prospectus out soon

Executives from British Energy, the nuclear plant operator due for privatisation next month, will be making the rounds of North American institutional investors this week as preparations for the sale accelerate.

A full prospectus, due to be published on Wednesday, will include details of the price discount that will be offered to the UK public to entice retail investors to buy the shares. It will set out a broad range of valuations for the company, and electricity industry analysts say the range is likely to be £1.3bn to £1.9bn.

The government is selling 700m shares, its total holding, with up to 336m shares reserved for British retail investors. The remaining stock - up to 610m shares - will be issued in the international offer, open to investors everywhere including the UK. No discount will apply. The company has already disclosed that it intends to pay a total dividend of 13.7 pence a share this year.

Store wars intensify

Marks & Spencer revealed yesterday that it is introducing cheap personal loans for customers who hold its charge card, in an escalation of the retail stores' "loyalty" war. The plan, which builds on M&S's existing financial services operation, is the latest attempt by a retail chain to widen its customer base through a loyalty or reward scheme.

Tesco, the leading supermarket by market share, stole a march on its rivals earlier this month when it boosted its Clubcard loyalty scheme by extending it into a highly competitive instant access deposit account. This helped force Tesco's main rival, J. Sainsbury into a climbdown from its previous opposition to loyalty schemes. Sainsbury last week announced a Reward card which gives its customers Air Miles through a link with British Airways.

Pressure grows on PM to sack agriculture minister

By Robert Peston, Political Editor

A powerful alliance of cabinet ministers and backbench Conservatives, including the deputy prime minister Mr Michael Heseltine, is putting pressure on Mr John Major, the prime minister, to sack Mr Douglas Hogg, the minister of agriculture, fisheries and food.

A decision on Mr Hogg's future is the trickiest of a series of challenges faced by Mr Major in the wake of the government's ending of the beef war at the Florence summit of European Union government heads over the weekend. The prime minister will today try to win the confidence of his backbenchers by telling them in a House of Commons statement that the EU framework plan he agreed in Florence could lead to the lifting of the worldwide ban on British beef exports "in months rather than years".

Conservative party managers are confident that Eurosceptic Conservative MPs and those with farming constituencies will resist the temptation to criticise him for ending his pol-

icy of disrupting EU decision-making. However, a growing number of them regard Mr Hogg as a potential liability in the negotiations with the EU on implementing the framework agreement. Their views are understood to be shared by Mr Brian Mawhinney, the Conservative party chairman, and Mr Michael Forsyth, the Scottish secretary.

One possibility, floated by a senior minister yesterday, is that Mr Hogg could replace Sir Nicholas Lyell as attorney-general. However, Mr Major has apparently ruled this out. "I am sad to say this, but Hogg must go altogether", said a senior Tory.

Speculation about Mr Hogg's position intensified yesterday when he pulled out of a BBC Radio interview just an hour before the broadcast. Government officials insisted there had been no pressure on Mr Hogg to withdraw.

prime minister has decided against a summary refusal to implement the ruling since this would be illegal. He hopes instead to placate Eurosceptic critics by delaying any legislation to implement the working hours directive until after the next general election.

This would give him time to lobby the EU's intergovernmental conference to prohibit the imposition in the UK of employment measures "by the back door" as health-and-safety issues. Mr Major thinks the UK should be immune from the EU's employment regulations, having secured an opt-out from the Maastricht Treaty's social chapter.

Post Office may lose monopoly of letters delivery

Financial Times Reporters

The government may abolish the Post Office's monopoly on letter delivery if there is no early sign of an end to strike action by mail workers.

The disclosure has caused great concern at the Post Office's Royal Mail offshoot, which said yesterday that an end to its monopoly would threaten its ability to charge a single price for deliveries to any part of the UK. "You need a monopoly to safeguard a universal service," a Post Office executive said.

The CWU mail workers' trade union said it was not surprised by the proposal because "the government seems to be obsessed with developing private mail services".

Mr Michael Heseltine, the deputy prime minister, has been putting pressure on the Department of Trade and Industry, which oversees the Post Office, to consider removing Royal Mail's monopoly over letters which cost less

than £1 (\$1.54) to deliver. "Ian Lang [the chief industry secretary] is considering the issue," the minister said. "We did not do it last week, on the basis of one day's strike, because that would have been over-reaction."

He added that if the industrial disruption became more serious, then an end to the monopoly was "highly likely". Another member of the government said there would be little point in suspending the monopoly only for a short period while industrial action was in progress.

"Unless we said it was a long-term move, there would be no incentive for couriers to invest in the infrastructure necessary to provide effective competition", he said. The options were to abandon the monopoly or order its suspension for a lengthy trial.

Labour party's mergers policy worries City of London

By David Wighton and Stefan Wagstyl in London

Much of the City of London is worried that the opposition Labour party's competition policy could spell the end of the mergers and acquisitions boom. The final date for the next general election is May next year, and opinion polls continue to suggest that a Labour government will come to power for the first time since 1979.

Concern centres on Labour's proposal, repeated in the draft of its forthcoming policy document, to raise the public interest hurdle for bids referred to the competition authorities. No longer would bidders merely have to demonstrate that a deal would not operate against the public interest. They would need to show it was beneficial.

Labour

- Consider amalgamating MMC and OFT
- Prohibit cartels
- Prohibit anti-competitive practices
- Examine curbs on takeovers and mergers

Reform of merger regulation will be the most controversial element in Labour's competition policy. But the party will also pledge to strengthen the law against anti-competitive practices and will examine streamlining the administration of competition law by uniting the Office of Fair Trading and the Monopolies and Mergers Commission.

Conservative

- Retain separate MMC and OFT
- Prohibit cartels
- Strengthen OFT's existing powers to investigate and put anti-competitive practices, but avoid full-blown legal prohibition
- Retain existing takeover and merger rules

ably clearer. Labour believes the changes would help protect consumers and small companies from domination by big groups. But some City analysts warn that they could increase regulatory constraints.

all sorts of public interest defences in terms of jobs, investment or competition, says one investment banker.

Those looking for guidance on how public interest would be interpreted will find little enlightenment in the party's forthcoming policy document.

"In the end, much will depend on who gets the job as industry secretary," says a Labour insider. The chief industry minister now wields considerable power over the application of merger policy, and neither Labour nor the governing Conservative party has shown interest in reducing the degree of discretion.

Labour is examining the case for amalgamating the MMC with the OFT to create a unitary Competition and Consumer Standards Office. This would take sole charge of the

investigations now done by the OFT and MMC, thus avoiding duplication. The government, in contrast, is reluctant to end the division of powers between OFT, MMC and the chief industry minister. Ministers argue that the three-way split prevents competition policy from being concentrated in too few hands.

The main parties also differ over the approach to anti-competitive practices such as predatory pricing. Labour would consider prohibiting such behaviour, bringing UK law into line with European practice under Articles 85 and 86 of the Treaty of Rome. British consumer groups have long lobbied for such reforms.

The government has delayed competition law reform since it first made firm proposals in the late 1980s. However, in

March, it finally published a consultation paper which proposed making cartels and price-fixing agreements illegal. This would allow the authorities to ban a cartel while it is being investigated. Currently no action can normally be taken until an investigation is complete.

But ministers would not extend the principle of prohibition to anti-competitive practices, as Labour might. They accept that the British system lacks the coherence of competition policy elsewhere in Europe, where abuses and sanctions are more strictly defined. But they believe the flexibility of the British system is an advantage. The Conservatives argue the realities of competition are too complex and unpredictable to be covered by a tight framework of rules.

The Government of the Arab Republic of Egypt
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AMEREYAH CEMENT COMPANY
Lead Managers
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 Extension of the deadline for submission of bids until 2:00 pm (Cairo time), August 22nd, 1996.

The deadline for submission of bids for Amereyah Cement Company (ACC) has been extended from June 24th, 1996 to August 22nd, 1996 at the request of a number of global cement producers in the process of completing their due diligence. All offers must include a bid bond in favor of the Holding Company for Metallurgical Industries covering 2% of the value of the bid.

In addition, it was decided to proceed with a public offering of 1,000,000 shares of ACC at a fixed price of LE 46 (US\$ 13.53) per share, to take place from June 23rd, 1996 to June 25th, 1996.

Reminder: ACC was incorporated in 1989. It operates two dry Polystyus kilns with a combined nominal capacity of 1.98 million tons per annum. The plant is situated 55km west of Alexandria. Actual production, essentially ordinary portland cement, reached 2.3 million tons in 1995, making ACC one of the largest producers in Egypt, with a 14% local market share. Net profits reached US\$39 million in 1995, a 78% increase over 1994 results.

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Two different legal games are being played in France. One is the campaign Mr Jean-Marie Le Pen's National Front has been waging in the courts against French newspapers dubbing it "extreme right". The other is the equally vigorous effort by the Gaullist establishment of the city of Paris to avoid being put in the dock by investigations into municipal procurement and property practices.

There is, of course, no direct link between Mr Le Pen's recourse to the courts and the Parisian Gaullists' avoidance of them. But the longer-term struggle between "the right" and "the extreme right" in France may be influenced by the outcome of these legalities.

For, to the extent that the NF wins acceptance as a mainstream patriotic party, it will set into the support of the Gaullist RPR party. The latter has been a bulwark against the NF, often more so than its government coalition partner, the centre-right UDF. For historical reasons, the UDF tends to be more right than centre in the south of

Le Pen's case for greater popularity

France, where it attracted the votes of ex-settlers from Algeria, the *piétons* who refused to vote for the party of General de Gaulle, the man who gave Algeria its independence.

Few people, on the centre or traditional right of French politics, have been as stalwartly anti-NF as Mr Chirac, even in his worst moments of electoral desperation; in between the two rounds of the 1988 presidential election, he refused to follow the advice of his interior minister, Mr Charles Pasqua, and make the gesture towards the NF that might have given him the edge over François Mitterrand.

But one reason why the NF has gained is that it has been able to hammer away at the corruption of the French political establishment, and to vaunt its own relative cleanliness - with some justification - because, until recently, it had no power to abuse. Precisely because of

DATELINE

Paris:
The courts could well influence the longer-term struggle between France's "extreme right" and "right", writes David Buchan

this, the question marks still hanging over the Gaullist administration of Paris - of which Mr Chirac was mayor from 1977 to 1985 - are griet to the electoral mill not only of the Socialist opposition on the Paris city council, but potentially also to

the NF. The Paris prosecutor appears likely to bury the latest probe into the city's affairs - allegations that Mr Jean Tiberi, the mayor of Paris, may have abused his past position to refurbish at considerable public expense his son's city-owned apartment.

So far, the only real territory the NF can call its own are the three southern cities it won in the 1985 municipal elections, Orange, Toulon and Marignane. This has not caused any great local political earthquakes, although the abrasive mayor of Orange has managed to tread on more toes than his NF colleagues in Toulon and Marignane. His most publicised act has been to cut off city money to the annual Orange musical festival, money which was promptly restored by the culture minister in Paris out of his own national budget. Not surprisingly, the mayor of

Orange hailed this a tactical triumph of squeezing cash out of Paris. In Toulon, it was the artists who took the initiative. But when the Chateaufallon dance festival decided of its own accord it wanted no more city subsidy, the NF mayor of Toulon hailed it as a saving for the Toulonais taxpayer.

The three NF mayors have claimed success in reducing taxes (partly by curtailing spending on culture) and improving security (by hiring more local police), while they have sufficiently cautious in promoting their "French first" social policy to avoid infringing French anti-discrimination law.

In the case of Toulon, this may be the result of central government adapting to the NF rather than the other way around. In December, the government appointed Mr Jean-Charles Marchiani, a long time associate of Mr Pasqua, as préfet of

the Var department; in his new role, he banned a "rap" group called NTM (standing for *Nique To Mère* or roughly what Oedipus is supposed to have done to his mother) from appearing at a Chateaufallon function. His move was widely criticised by many in the RPR-UDF, but not by the Toulon mayor.

But for the most part, the NF is actively searching for a cloak of respectability to enable it to widen its base. In recent months, it has set up a NF union inside the police force and the Paris RATP transport system, and has won a tiny handful (17 out of 1,500 seats) in local public housing associations around the country. But to reach further into the middle ground, it is fighting a battle of symbols and words. It already makes a pitch for Jean d'Arc by holding a mass rally around her statue in Paris every May 1, and this year it has been

loudly celebrating the 1,500 anniversary of the conversion of Clovis, France's first Christian king.

Now the NF wants to shed the label of "extreme right", because as Mr Le Pen complains it conjures up the image of "prewar fascist movements... calling for violence, racism and a one-party state". It has thus sued several newspapers for using this epithet, and has had some success with judges who have awarded it a right of reply in the newspapers concerned.

But two left-leaning publications, *Libération* and *Nouvel Observateur*, countered this week by printing interviews or appeals with dozens of politicians - of the right and centre as well as left - describing the NF as "extreme right". The political terms of "left" and "right" come to us, of course, from the French Revolution. As Mr René Remond, a distinguished historian, said this week, as long as one keeps plotting political positions along a left-right axis, "there will always be an extreme right, and it happens that the NF occupies this position".

Sparks fly as Henkel lights touchpaper

Wolfgang Münchau on the uncompromising stance of the president of the Federation of German Industry

Few public figures in Germany are as divisive as Mr Hans-Olaf Henkel, the president of the Federation of German Industry (BDI).

As head of IGM Germany in the late 1980s and early 1990s, he pulled his company out of the collective regional wage bargaining process and made Sunday a regular working day, infuriating local trade unionists and priests.

Over 18 months ago he traded his job at IGM for the presidency of the BDI, and has since been attacking the welfare state with ferocity.

Now aged 58, he ranks as one of the most libertarian critics of the German social market economy in its current guise.

Speaking at the BDI's annual congress last week he predicted that Germany would lose out against international competitors, unless it reverted to its entrepreneurial roots and unless it reduced the size of the state by cutting taxes and social spending. "Globalisation means that our foreign customers are no longer prepared to pay for German extravagance, such as old age care insurance, high absentee levels and high pension contributions," he said. To add insult to injury, he upheld Britain as an example of sound economic management. In a reference to the leader of the British Labour Party, who attended as a guest, he said that "unemployment in Tony Blair's country has gone down from its peak in the 1980s by 20 per cent, while in western Germany it has gone up by 10 per cent."

Comments like these make his opponents in the German labour movement cringe. His critics suspect him of conspiring to sabotage Germany's much praised consensus model. Even Chancellor Helmut Kohl has let it be known that he views Mr Henkel as too extreme.

One of his most frequent targets is the trade unions. In a country

where trade unions are deeply rooted in the industrial fabric of society and where they have retained a virtual monopoly in the wage bargaining process, Mr Henkel has no qualms about saying that the trade union movement is in terminal decline, here and elsewhere.

At a time when German popular sentiment towards Britain is almost as low as it has ever been because of the row over BSE disease in cattle, it takes a dare-devil temperament to recommend Britain as a good example from which "we could learn a great deal".

Germans have grown accustomed to regarding their own system as more successful than the laissez-faire economies of Britain and the US, even if statistical evidence suggests otherwise.

Perhaps least sensitive of all are his repeated assertions that German companies will move abroad in increasing numbers unless the government cuts corporation taxes and employers' social security contributions.

All this may read harshly in print, but it looks and sounds even harsher on television because Mr Henkel rarely smiles, he has a penetrating stare, and he speaks with an austere Hamburg accent.

Yet, while it is difficult to like his public persona, his views closely reflect those of German industry, whose leaders are growing increasingly restless over the economic direction the country has taken. This is especially true of the German Mittelstand, the sector of mid-sized companies which has been particularly hurt in the recent double-dip recession. It has turned almost militant in its opposition to the welfare state.

With his big-business background, Mr Henkel is not a classic Mittelstand lobbyist. Yet he is still

the most outspoken representative of the Mittelstand has at the moment. Even Mr Kohl appears persuaded by some of the arguments, admitting openly that the country's competitiveness is under threat. The chancellor now insists that there are no alternatives to his politics of thrift. He appears determined, at least so far, to make only minor modifications, despite increasing hostility from the trade unions.

Mr Kohl's mild concerns about the country's future, however, bear no comparison with Mr Henkel's sense of apocalypse. In a recent interview with this newspaper, Mr Henkel painted a picture of a country in decline through complacency and decadence.

He described the risk aversion of German youths as "the consequence of a complete and utter over-indulgence of the working population, which was brought about by the unions and a whole generation of social affairs politicians. If you ask parents today about what their sons and daughters should do after they leave university they will mention the public sector first, and companies only second. This is because the public sector appears to be a safer employer. If this safety did not exist, we would have had a lot more of the pioneering spirit that we had right after the war."

Having spent many years in the US, Mr Henkel appears to have assimilated Anglo-Saxon attitudes, especially attitudes towards risk and reward, which most Germans would view with a sense of alienation. What is perhaps most unsettling to many is Mr Henkel's argument that the market is capable of supplying many of the welfare policies that were previously provided under complex tripartite arrangements between government, unions and employers.

"Trade unions are in decline

PEOPLE



Hans-Olaf Henkel: infuriated Germany's trade unions

worldwide," he said in the interview a few weeks ago. "There are several reasons for one, each businessman knows that he can only survive if he conducts a progressive personnel policy. The second reason is that much of the unions have fought is nowadays enshrined in law."

The most important reason, however, he said is that "in the modern world the role of the individual is strengthening. People want less determination by others, even less co-determination. They want self-determination, and I believe a spirit of freedom is presently running through the western democracies."

He leaves no doubt that his mes-

sage goes beyond the usual call for tax cuts, more flexible working hours and the other demands which industrialists regularly put forward. Mr Henkel's critique challenges the politics of consensus on which post-war German society has rested.

He may have helped spark a debate about the kind of society and economy Germany wants. But Mr Henkel's views lack broad political support. Germany does not yet appear ready to dump its social market economy, let alone adopt someone else's system.

Perhaps the "spirit of freedom" has not permeated the country to quite the extent that Mr Henkel would have liked.



Leng uses shock tactics to gain results at Laporte

Mr Jim Leng has instigated some drastic action at the UK's fourth largest chemicals company, Laporte, since taking over as chief executive last October, writes Jenny Laesby.

With three appointments last week, he has now replaced all the executive directors. He has made restructuring provisions of £88.7m (£85.7m), announced 300 redundancies and promised to dispose of 10 per cent of the company.

Mr Leng, 50, is widely credited by the City with having reversed the fortunes of Low & Bonar, the packaging company. However, analysts who viewed Laporte as a solid performer, have been shocked at the scale of his latest actions.

Mr Leng argues his programme will add £10m to profits through reduced costs, and set the company on a path of double-digit profit growth. Boosted by non-trading windfalls, and suffering weak demand and falling prices, the group was anyway less profitable than it seemed: prompting a profit warning last December.

The problems Mr Leng has really set out to address concern the group's strategy and management.

Laporte's management style has not changed as the group expanded internationally. When Mr Leng called his managers together for a three-day meeting at Gleneagles, in May, to discuss strategy and "harmonise their business plans", it was the first such meeting the group had ever had. Until the appointment last week of Mr Michael Kenny, of US chemical company

Church & Dwight, Laporte was without an executive to co-ordinate activities in the US, yet more than a third of group sales were there.

It had also acquired non-core businesses which accounted for 11 per cent of sales last year but just 4 per cent of profits. These are now going, says Mr Leng. The changes have been shocking, he says, but what the group has gained is clarity. And the results will feed through to profits within months.

Chung squares up for political goal

Next to its president Mr Joao Havelange, few figures are so prominent in the affairs of Fifa, world football's governing body, as Mr Chung Mong Joon, a member of the organisation's executive committee and head of the South Korean Football Association, writes Jimmy Burns.

At the beginning of next month, a three-man Fifa study group will meet in Zurich to begin to see how best the organisation can implement its extraordinary decision to have the 2002 World Cup co-hosted by South Korea and Japan.

Since joining the Fifa executive two years ago, the 47-year-old Mr Chung has lobbied intensely to have the World Cup hosted in his country. He mounted a very effective counter-offensive against the bid from Japan, which was favoured by the long-serving Havelange.

Last December, Chung picked up on calls for greater democracy within Fifa, by publicly clashing with the autocratic Havelange and claiming that TV and marketing contracts worth millions of dollars were being negotiated by "too few people behind closed doors".

Japan and South Korea have had accused each other of buying votes as part of their bids, but Mr Chung is used to political mud slinging.

In 1992 Chung was linked together with his father, the founder of the powerful Hyundai group, to allegations that the family was siphoning off money from the conglomerate to fund a bid for the presidency of the country.

Chung survived an elected MP and "advisor" to Hyundai shipbuilding interests. He continues to have his family firm behind him, while making no bones about wanting to use the publicity generated within Fifa to further his political career.

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Co-edited by Professor David Welsh - Professor of Political Science at the University of Cape Town, and Yayo Bavuma - Political Journalist and Corporate Consultant, other contributors include:

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Stephanie Flanders · Economics Notebook

If Emu, then ERM II

Preparations are under way for dealing with Emu's "ins" and "outs"

Country	Differential (%)
UK	~1.5
Spain	~1.2
Portugal	~1.0
Sweden	~0.8
France	~0.6
Italy	~0.4
Belgium	~0.2
Austria	~0.1
Netherlands	~0.0

Source: Reuters

UK officials still say "if" when they talk about European monetary unification. Their Continental colleagues say when, and are preparing for life after Emu accordingly.

One of the most important post-Emu issues, discussed briefly at the EU summit in Florence, is how to cope with a Europe of "ins" and "outs". If, and when, Emu takes place, a good many EU countries will not take part. Yet the Maastricht treaty is more or less silent on the principles that should govern the relations between these outsiders and the Euro.

It does state that the "outs" must treat their exchange rate policy as a "matter of common interest", and, more awkwardly, that in order to qualify for Emu a country must observe "the normal fluctuation margins of the European exchange rate mechanism... without severe tensions for at least two years". I say awkwardly because, as things stand, the European Monetary System - and with it the ERM - will automatically cease to exist the day the Euro is born.

Combine these two conditions, says Hans Tietmeyer, the president of the Bundesbank, and you have a strong case for a new ERM, both to ensure the stability of Emu and leave the way open for others to join. Only an ERM-style arrangement, in his view, would reassure Emu members that they will not be subject to further, divisive "competitive devaluations" against the Euro by non-members.

A new ERM, in turn, would allow late entrants to comply with the exchange rate conditions somewhat absent-mindedly agreed in Maastricht. With lower interest rates inside the ERM, the "pre-ins"

might also find it easier to achieve the criteria for public borrowing and the national debt.

British officials are against forcing a new ERM on all the countries left outside Emu, for perfectly respectable reasons. As Eddie George, governor of the Bank of England, pointed out to the House of Lords Select Committee on the EU (whose report on "ins" and "outs" was published last week), the single market needs rough real exchange rate stability to function most effectively. But, as the 1992 debate showed, a nominal exchange rate peg is neither a necessary - nor a sufficient - condition for achieving this. The debate, argued Mr George, was really about how to maintain "a certain degree of convergence" between the "ins" and the "outs". For some countries, this might mean a tight exchange rate link with the Euro. But you could achieve the same end simply by every country agreeing to pursue a domestic inflation target, since this would also tend to rule out large devaluations, "competitive" or otherwise.

The UK has argued that the exchange rate convergence criterion should simply be ignored, on the grounds that the ERM has changed beyond recognition since the treaty was signed. Kenneth Clarke, the UK chancellor, has won this latter argument, for now at least. His European colleagues recently agreed to suspend judgment on the question of how to apply the Emu exchange rate criteria until the middle of 1998. But they have otherwise largely ignored the UK's objections in plotting the shape of ERM II.

Alexandre Lamfalussy, president of the European Monetary Institute, presented a report on the new ERM at Florence. The plan is to agree the broad outline of the new system at the informal meeting of finance ministers in Dublin in September, ready for final agreement by heads of government at the Dublin summit in December.

Mr Lamfalussy, previewing the EMI report's conclusions in a speech in London last week, claimed there was now broad agreement on the new system's key features. On the surface, it would look similar to the present one, featuring relatively wide fluctuation margins around central rates. There might be stricter, tailor-made arrangements for countries on the verge of Emu entry.

There will, however, be some key differences, both in the European Central Bank's obligation to support member currencies, and the agreeing of changes to the central rates. "Marginal intervention" to support currencies at the edge of the wide bands, would be automatic. But Mr Lamfalussy said that the ECB could not be committed to intervening where this might undermine its duty to pursue price stability in the Euro area.

He envisages some form of "opt-out clause" whereby the ECB could stop supporting a currency, thereby triggering a readjustment. Ideally, however, the process would be "pre-emptive", with the ECB, or the members concerned, deciding on readjustments before the need for marginal intervention arose.

Mr Tietmeyer and others are keen to give the ECB the right to demand re-adjustments, on the grounds that it would "depoliticise" the readjustment process. This argument has a long history, in truth, devaluations will always be political; the question is whether governments, or central banks, take responsibility for them.

Back in 1987, Erik Hoffmeyer, the governor of the Danish Central Bank, persuaded his European colleagues on the board of the Bank of International Settlements not to transfer responsibility for ERM readjustments from governments to central banks. His winning argument was that it would encourage prime ministers and finance ministers to wash their hands of hard adjustments. Mr Lamfalussy and his colleagues will have to ensure that the new system does not run the same risk. Finally, and most fundamentally, the new ERM will be formally asymmetric, with the Euro playing the role of anchor. In the event of conflicts, the *outs* will be on outsiders to bring their policies into line with the Euro bloc, rather than the other way round.

The UK - and a few other countries - have been unhappy about having a strictly asymmetric system. Why, they wonder, should countries who have decided not to join Emu be nonetheless beholden to the ECB in formulating domestic economic policies?

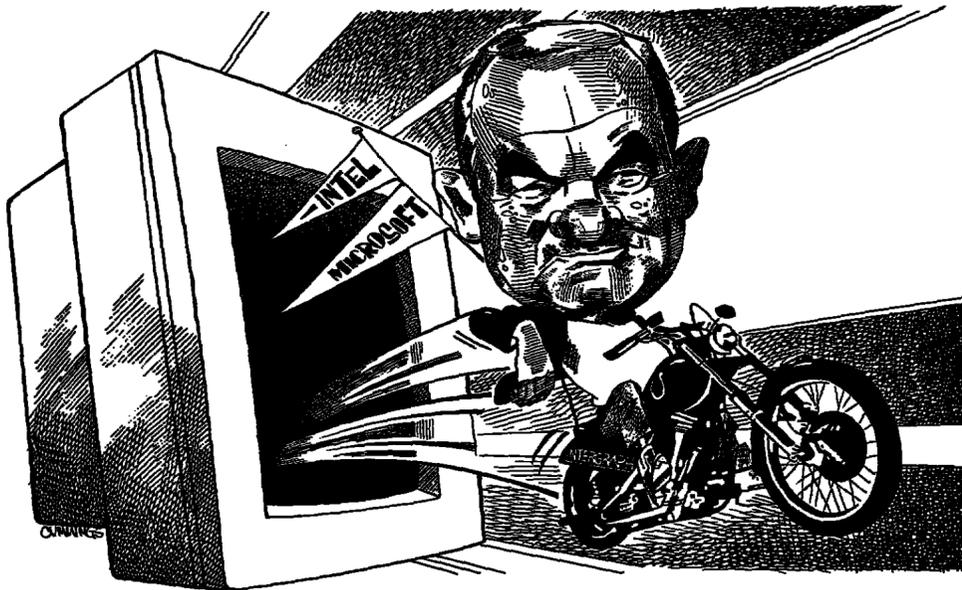
This argument makes sense for countries that have chosen to be "outs". Mr Lamfalussy says that outsider currencies, "almost by definition", will tend to be weaker than the Euro, since they would generally have failed to meet the Maastricht convergence criteria. But the same does not necessarily apply to the two "opt-out" countries, the UK and Denmark.

If Emu happens, there will be an ERM II. And, whether the UK likes it or not, the Euro will be the anchor currency. That much is clear. Whether the system will be able to accommodate the "ins", the "pre-ins" and the "outs" is a lot more doubtful.

MANAGEMENT

Intergraph has undergone a painful restructuring and now must prove that it was all worthwhile, says Andrew Baxter

The long road to battle fitness



Jim Meadlock stretches back in his chair and contemplates with a rueful smile his company's fortunes in the Chinese software market. "We've sold more electronics seats [individual software copies] there than any other company," he says. "But we don't make a dime - they are all stolen."

For Meadlock, chairman and chief executive of Intergraph, software piracy is a minor irritant compared with some of the problems he has had to grapple with in recent years. The Alabama-based technical computing concern has had to change virtually its entire product range over the past four years, introduce a new organisational structure - and try to keep its customers happy in the process.

Now, after three years of painful restructuring and 12 consecutive quarters of net losses totalling \$231m (£150m), the company believes it has turned the corner. With a range of new products just released, Intergraph is getting serious about boosting its sales and producing the kind of profits that, it hopes, will make long-suffering shareholders happy too.

It is also coming to grips with changing its culture. Marketing, once almost a dirty word at a company that has long been "technology-led" and believed its products were too good to need much advertising, is the new flavour of the month. At Intergraph UK, engineering and technology functions had the high ground for years, says Roger Hill, recruited last year as the Swindon-based unit's managing director. "You had to have failed at something else to be a salesman."

Intergraph is something of an oddity among US IT companies. It is not based in Silicon Valley or Massachusetts. Its chief executive is a sober-suited, unpretentious man who puts his feet up on the desk during meetings and speaks, more or less, in plain English - the antithesis of the younger-generation IT executives with their pony tails and nerdy technospeak.

Few companies of its size (annual sales of \$1bn) in such an image-conscious industry are less well-known outside their own customer base - the technical professionals in industry and government who buy Intergraph's workstations, servers and applications software to support everything from product modelling to geographic mapping and data management.

Within this group, though, there is a loyalty to Intergraph akin to that held by Macintosh users for Apple. Over the years, this loyalty has been nurtured through Intergraph's support of a very active worldwide user group, whose annual shindigs in its home town of Huntsville are an opportunity for the company and its customers to cement relationships.

Most of the sideshows at this year's conference, held last month, were strictly for the technically-minded. But there were occasional lighter moments in the main auditorium, notably the rare sight of Meadlock appearing on screen at the controls of a Harley-Davidson, revving up as if ready to head off into the desert with a triumphant cry of "Smokin'!"

There have been few laughs recently for Intergraph employees, but thanks to the change of strategy in 1992 that could alter.

At a time when the IT industry was rapidly moving towards an open systems environment, Intergraph found itself saddled with workstations based on its own Clipper microprocessor, and software solutions that ran only on these workstations via an operating system called Clix, a derivative of the Unix operating system widely used in industry.

After one stillborn attempt in 1988 to shed its proprietary image, Meadlock and his team finally decided four years later to switch to Intel microprocessors, to "port" or adapt most of Intergraph's applications software to Microsoft's recently introduced Windows NT operating system, and to develop a range of new products to run on it too.

That switch was mirrored by other workstation suppliers, but it was harder for Intergraph because the company had to adapt its software at the same time. Meadlock admits the transformation "has taken longer than we thought it would, so that has added to the cost. We're probably a year late, at least with the new products."

Halfway through the process, says Meadlock, Intergraph agonised over whether or not to red much of the work already completed, so that

Microsoft's "object-linking and embedding" software (OLE) could be taken into the world of 3D product design. Eventually it decided it should.

One of the challenges was to keep clients happy. Extra costs were incurred, points out Larry Lester, chief financial officer, to ensure that existing customers stayed with Intergraph and were not left in the lurch. "We had to develop interoperability products so that customers could make the transition from Unix to NT."

The timing, moreover, was risky. While Intel chips were already dominating the industry in 1992, for instance, Windows NT was in its infancy and has only picked up momentum in the past year.

Meadlock maintains that "fundamentally, in terms of when we did it, and what we did, we were right" and few in the IT industry would bet against a strategy which has involved teaming up with Microsoft and Intel. "It's remarkable that a billion-dollar company with a history of commitment to different technologies can take three years out, bite the bullet and change its strategy," says Richard Chu, analyst at Boston-based Cowen & Co. He points out that the changes

would have been much easier for a start-up company.

Chu says he is not surprised the transformation has taken longer than expected. "It's not just a question of writing new code for the software, it takes time to communicate the changes to users; I am not sure that they have yet been fully accepted."

While Intergraph was grappling with its technology challenge, other clouds were gathering. Margins were being squeezed relentlessly on hardware, and at the beginning of last year, the company lost its exclusive right to distribute a software product called MicroStation, the "graphics engine" of many of its applications.

In response to these pressures, and in preparation for the completion of the product changes, the company has been reorganised into five business units - hardware, software, and the federal government business, public safety and electronics markets.

This belatedly followed the widespread move away from functional organisations by companies in a variety of industries, in an attempt to make individual businesses more responsive and profit-oriented. For Intergraph, it is particularly impor-

tant as it decouples the software and hardware businesses. "They could be totally different entities if they chose to be," says Chu.

Meadlock believes the advantages of IT companies producing both software and hardware outweigh the disadvantages, but it usually makes more commercial sense to sell them independently, particularly in an era when most software is not tied to proprietary hardware.

This year, for example, Intergraph's electronics design automation software business has even been formed into a subsidiary, VeriBest, to separate it further from its parent. "All its competitors were totally dedicated to the electronics market," says Meadlock. "Our salespeople were saying it hurt them to be part of Intergraph."

For all the changes at Intergraph, however, revenues since 1993 have stuck doggedly at just over \$1bn a year, and Meadlock says the company has reached the point where it needs to increase them. There may be some "tweaking here and there" to further reduce costs, says Lester, but with the workforce down from 10,600 in mid-1992 to 8,400 "we've got the right size of company. Sales have to grow to fit that."

Meadlock's target for Intergraph's

hardware business alone is \$1bn of sales by 1998. It's a volume business, he says, and "if you can't reach \$1bn, you're nowhere". According to some observers, though, that would still be barely big enough to compete effectively in a commodity business.

At least, however, Intergraph has given itself the opportunity to exploit its new business structure. Marketing has long been its Achilles' heel, but little could be done to beef it up while the product range was in a state of flux.

In the past few months, Intergraph has launched a stream of new products to build on the framework provided by the upheaval of the past three years, including graphics workstations, document management systems and Web servers.

Two computer-aided design (Cad) software products released in the past few weeks, Solid Edge and Imagineer, are particularly important as the first of a new family using Intergraph's "Jupiter" technology, whose features include reduced duplication between the functions of the application software and those already available on NT.

The new marketing model was designed by Manfred Wittler, Intergraph's executive vice-president with responsibility for European and American sales. Wittler hired Roger Hill, who has moved quickly to reshape the UK subsidiary since he arrived in July.

Using the new business structure as a blueprint, Hill has recruited managers from outside the company to run four new self-contained vertically-integrated business units. Some 30 senior people have left the company, including a number who, it was felt, could not accept the new approach.

A key task, says Hill, has been to develop new sales channels, in particular "indirect" or independently owned channels which previously accounted for only 10-15 per cent of sales. Hill aims to boost that to 35-40 per cent this year, helped by recent alliances with systems integrators and consultants.

"Moving from proprietary products through Unix to NT, you end up reducing the price point," he says. "So you need to reach the customer through infinitely variable forms of distribution." Imagineer, for example, is a 3D drafting package and integration tool which is aimed at engineers of all kinds, but is priced at only \$398 in the UK - too low to support an expensive company-owned sales force.

Unfortunately, the new era at Intergraph has got off to a shaky start. Having clawed its way back into the black in the fourth quarter of 1995, the company lost \$6.4m in the first three months of 1996, due at least in part to a shortfall in expected software revenues because Imagineer and Solid Edge were not released until April. Worryingly, some analysts also attributed the loss to slower-than-expected acceptance of Windows NT in the technical market, where Unix rules.

But Meadlock is convinced that Intergraph will be in the black for 1996 as a whole, and Lester says a return to profit is not a matter of "if" but "when". Both can take heart from the performance of Intergraph UK, where the new strategy seems to be working already. After losing money through most of 1995, the subsidiary has been running at a profit since November.

Call in the corporate gumshoes

If you were engaged in a dastardly act of industrial espionage you would make some effort to cover your tracks. You would shred the evidence, burn it, plant it on someone else. But you wouldn't leave it in your dustbin at home ready for the corporate gumshoes to find it. Or would you?

Last week Kroll Associates, the private investigators, had to look no further than the dustbin of Roy Tazzyman, Davy International's former chief executive, to find some troublesome papers. Tazzyman angrily denies any impropriety and legal proceedings are under way but the episode makes one wonder whether the average corporate wrongdoer is not so sophisticated after all.

That is certainly not the impression created by a bizarre publication from a Dutch outfit called Hoffman Investigations. It contains case after case in which employees have gone to incredible lengths to cover up their antics, which include nicking champagne from the boss's fridge, decanting the family house

on the company and more serious large-scale embezzlement. Indeed after reading 12 pages of these antics it is hard not to start suspecting all your colleagues. Why does your team leader work even later than you? Is it because he is diligent, or is he up to something?

According to Hoffman Investigations, there is no point creating tighter internal controls. Instead it says managers should pretend to be asleep, encourage the fraudsters to get careless, and hire a private detective to hunt them out. A self-serving argument, if ever there was one.

There is a better way of dealing with corporate misdeeds at work: make your employees feel happy and properly valued so that they are more likely to stay straight in the first place.

Did you go home on time on Friday? What did it feel like? Nice? I go home on time every day, week in



Lucy Kellaway

week out. This, I gather from the "facts" wheeled out to support last week's action, makes me unique. According to a survey by Hays Accompany Personnel eight out of 10 British workers said they never leave work on time, while not a single respondent admitted to leaving always on time.

So I am well placed to tell you what going home on time every day feels like: it is not as great as it is cracked up to be. In fact the necessity of leaving the office at a particular time (as thousands of parents do who have to collect a child/believe a child/minder) is pretty stressful. By comparison, the ability to

stay late seems like a luxury.

This does not mean that Go Home on Time Day was misguided; just that the overwork lobby overplays its hand. The figures produced by Hays are ludicrous - you only need to wedge yourself on to a commuter train at 6pm to see how many people do leave promptly.

But whatever the numbers, it is true that too many people do work too hard. Some of them work unnecessarily. Some of them suffer stress as a result. And for some this leads to strife at home. Yet it would be wrong to conclude that overwork is always bad. Some people love working hard, and so long as they are

happy, I can't see a problem.

First was Tony Martin. Now Nowell Stebbing. Both are senior UK biotech executives who have sued their former employers for unfair dismissal. This could well be the beginning of a trend. Hardly a day passes without the news that another chief executive has been fired from his job. Occasionally these people have mucked up in a royal way. More often, though, their departure is a more subjective matter. The pressure on leading executives has never been greater: if they are deemed by shareholders not to be delivering enough profit, or if they have fallen out with fellow directors then they must go. Some of these dismissals may well be "unfair", but that does not mean that the sacked bosses deserve much sympathy. The risk of losing your job is part of the package of being a top executive. Just as the rewards of the job have risen, so have the

risks. And that is what is called a market.

Last week I singled out the annual reports of Hugo Boss and Origin. It now appears the Continent is awash with equally gimmicky reports. Take Ares Serrano, the Swiss drugs group. The cover features a balloon race on a cardboard wheel and bears the slogan "Progress is like the wind, nothing can stop it". On the contrary: the point about corporate progress is that everything and anything is permanently conspiring to stop it, which is why running a company is such a nightmare.

Worse is the statement from the vice-chairman which begins: "Where is beauty? Why are the clouds beautiful? Because they change but never change." It is all very well to write about beauty if you are Gerard Manley Hopkins, but Fabio Bertarelli should stick to his knitting, or to his recombinant DNA technology, as the case may be.

Co-op disaster plan in action

It was just another Saturday morning for around 200 staff at the headquarters of the Co-operative Bank in Balloon Street, Manchester. By mid-morning, however, there were reports of a bomb scare in the city centre. Police began evacuating shops and offices around the Aradale shopping centre. Just 250 yards away, the staff of the Co-op bank were told to stay indoors.

When the blast came at 11.15am, the Co-op was just one of dozens of city centre offices rocked by the 1,000lb explosion. Part of the van which had held the IRA's bomb landed in the roof garden on the second floor of the Co-op's building. But the bank had survived surprisingly well. While ceiling tiles fell on to staff inside, no one was injured by the blast.

The bank's security staff immediately launched the company's well-rehearsed emergency procedures. After the last IRA bomb in Manchester four years ago, the bank had decided to write a disaster manual which it rehearsed and refined three times a year. Led by Tony Britten, head of security, and Walter Armstrong, head of property services, the emergency plans were put straight into action.

Terry Thomas, managing director, says: "They carried more power than myself or any member of the executive team because they had the plans. One of the first decisions we made was to re-confirm their power and to follow the manual religiously."

Police sealed the main shopping streets immediately and the bank contacted around 20 team leaders to set up a crisis team the following day in Salford. Their key task was to spread communications throughout the bank's 700 staff as quickly as possible. Within 24 hours team leaders had contacted staff and important corporate customers informing them of the emergency plans.

Over the weekend of the bombing, computers were transferred to alternative offices, allowing crucial systems to be set up quickly in other Co-op offices in Stockport, Salford and Skelmersdale. Around 400 staff were told to stay at home, while the remainder of the headquarters' employees made arrangements to work elsewhere. A freephone telephone line for staff helped to maintain the flow of news from the bank's crisis team.

By Monday - less than 48 hours after the bomb - it was clear that the emergency procedures had worked. Within days, essential departments were moving back into the building, and by Thursday the branch was open once more to retail customers. Today the headquarters will be fully operational again.

A thorough debriefing will examine how the disaster plans can be improved. But for Terry Thomas, the bomb has emphasised not just the importance of the well-rehearsed emergency plans or the value of having portable computers which can be moved to different sites. "The most critical thing is the people," he says.

"It is the morale of your troops. We have high morale in our bank because we are capturing market share and not laying people off. What is vital is the degree to which they identify with your objectives when something like this happens. You cannot create morale after the bomb has gone off."

Richard Wolfie
The Dealing with Disability series will continue next week.



IT'S 3.45am WHO'S LOOKING AFTER YOUR CUSTOMERS?

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COMPANIES & MARKETS

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Monday June 24 1996

Trumpf boosts German machinery sector

By Peter Marsh in Stuttgart

Trumpf, Europe's largest machine tool company, has injected a note of optimism into Europe's depressed machinery sector by announcing a large rise in profits for the company's financial year ending next weekend.

Eurotunnel may face resignation calls

By Andrew Jack in Paris

Shareholders in Eurotunnel, the troubled Anglo-French operator of the Channel tunnel rail link, are considering calling for the resignation of several of its directors at the annual general meeting on Thursday.

Leaders of the three main shareholder groups will meet tomorrow to set out a strategy ahead of an AGM which is likely to prove animated, and at which they will control a substantial number of votes.

Separately, Mr Robert Bedinter and Lord Wakeham, the two "mandataires ad hoc" appointed earlier this year to assist the company in its discussions with creditors and shareholders are expected to submit a confidential report to the Paris commercial court by the end of this month.

The greatest amount of support has come as a result of a concerted campaign by Investor, a French fortnightly newspaper for investors, which published blank proxy forms which it encouraged readers to complete by giving their voting powers to Ms Sophie Hélias, a shareholder activist.

She has more than 16,000 proxies representing more than 40m votes. More will come from the association of Eurotunnel shareholders controlled by Mr Christian Cambier.

Shareholders plan to vote against approval of the accounts and call for an alternative rescue plan to the one proposed by the management.

Shareholders are demanding greater democracy, says Andrew Hill

A rattle grows louder at Italy's boardroom doors

Nobody goes to Italian shareholder meetings for fun. Until a few years ago hardly anybody except the board even went for business, apart from a handful of professional disbarbatori.

with Ferruzzi Finanziaria (Ferfin), the holding company which controls the Montedison industrial group. Analysts' criticism, gaping losses and a judicial inquiry into alleged mismanagement of accounts at Gemina and its subsidiaries put paid to the plan.



Italian company directors are beginning to feel the heat again, and this time from more respectable quarters. The country's fund managers and small shareholders have begun a loosely co-ordinated action to release more transparent information, and to end discrimination against minority investors.

The new directors will have to explain on Saturday why they were unable to include Gemina Capital Markets, Gemina's wholly-owned finance company, in the consolidated results. Even the internal auditors decided to withhold their signature on the accounts at least until the assembly.

Analysts say they also want to end Italian companies' habit of issuing non-voting shares to raise cash, which excludes investors from active participation, and shake the dominance of holding companies, such as those used by the Agnelli and De Benedetti families to control, respectively, Fiat and Olivetti, the computer group.

Analysts say the success of recent public offerings by medium-sized companies, which come from outside the existing network of alliances and holding companies, shows that investors' attitude is changing. Carnegie Italia's recent study of medium-sized companies says: "The Italian market is now efficient enough to direct capital towards the wealth creators and away from firms that squander capital and ignore shareholders' interests."

Visa to launch cross-border corporate cards

By Motoko Rich

Visa International, the payment card association, is planning to launch cross-border corporate credit cards to take market share from rival American Express.

with two-thirds of the Fortune 500 companies and 80 of the Times's top 100 companies using its cards. However, Visa commands 54 per cent of the total global payment market in terms of transaction volumes, while American Express has only 10 per cent.

Earlier this month, American Express responded by announcing an international expansion programme and said it would begin issuing cards through banks. Until now, American Express has primarily issued its own cards, mostly charge cards, through an internal distribution network.

He said American Express could use the links with banks to create off customers and offer them other financial services, such as deposit accounts and investment products. American Express said: "We see ourselves as partners with the banks, helping them to increase their profitability. We see the banks competing with each other, rather than with American Express."

The cross-border product will allow a company's head office to obtain credit cards for all its executives, no matter where they live and work. Visa said this would help companies monitor spending and cut costs through bulk deals.

The cards, which are likely to be launched this autumn, would still be issued by member banks. American Express dominates the corporate card market.

Fund managers say they also want to end Italian companies' habit of issuing non-voting shares to raise cash, which excludes investors from active participation, and shake the dominance of holding companies, such as those used by the Agnelli and De Benedetti families to control, respectively, Fiat and Olivetti, the computer group.

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The message to old-style corporate Italy is clear: it will take more effort to get this generation of disbarbatori to shut up; but in the long run it might actually earn you money.

BTR to face pressure over dividend and sale plans

By Ross Tietman in London

BTR's senior management will today face tough questions from analysts about the speed and scale of its disposal programme amid mounting concern that the diversified industrial group may be obliged to cut its dividend.

At luncheon meetings with analysts today and tomorrow, Ms Kathleen O'Donovan, BTR finance director, will be pressed to explain how the group will address the widening gap between its shrinking cash flow and the £600m (\$618m) annual dividend bill.

Plastics Group, set up by entrepreneur Mr James Chao. China General has three main operating subsidiaries. BTR has 41 per cent of the China General Plastics at Taita which makes PVC, 51 per cent of Asia Polymer Corporation at Kaohsiung making low-density polyethylene, and 51 per cent of Taita Chemical Company, which makes styrene-based plastics. BTR runs all three.

Mr Ian Strachan, who took over as chief executive in January, has already signalled his plan to sell BTR's plastics manufacturing operations in Taiwan.

To clear the path for the sale of Taiwanese companies BTR bought the 38 per cent minority in BTR Nylax, its Australian subsidiary, for \$2m last December. Ten years ago, BTR Nylax acquired a controlling interest in the China General

Another company mentioned as a possible buyer is Sumitomo of Japan, which has a small joint venture with China General in the US.

INSIDE

Sun Life

The offer for shares in Sun Life and Provincial Holdings, the UK and Ireland arm of France-based insurer UAP, has been oversubscribed by two to three times. Shares, which began trading today, have been valued at 235p.

Compagnie d'Investissements de Paris

Banque Nationale de Paris, the French banking group, must decide today whether to accept an offer of FF305 a share from SBC Warburg, the investment bank, for its majority stake in Compagnie d'Investissements de Paris, an investment company.

Fund Management

Germany, Belgium, Switzerland and Denmark to some extent require pension assets to be invested in government bonds to reduce risk. But a study by the European Federation for Retirement Provision, a lobbying group, suggests the urge to protect people from the folly of their own actions can have strange effects.

Faces

The flotation of Mediaset, Silvio Berlusconi's television and advertising business, has marked the return to the limelight of Rainier Messera, director-general of Imi, the Italian banking group which is co-ordinating the flotation. It is six months since Messera ended a 12-month "sabbatical" as budget minister in Lamberto Dini's government.

Global Investor

The first-quarter rise in Japan's gross domestic product and the strength of US non-farm payroll figures have revived the debate over whether global interest rates are on the rise.

STATISTICS table with columns for various market indicators and their values.

COMPANIES IN THIS ISSUE table listing company names and page numbers.

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CUSTOMERS? and TECHNICAL ASSISTANCE

COMPANIES AND FINANCE

Sun Life offer over two times subscribed

By Martin MacConnell

The offer for shares in Sun Life and Provincial Holdings, the UK and Ireland arm of France-based insurer UAP, has been two to three times subscribed. Shares, which began trading today, have been valued at 285p and the company is capitalised at £1.3bn. Excluding privatisations, it is believed to be the eighth largest flotation in the history of the London market.

are exercised before July 19. This means UAP retains a majority shareholding of 60.2 per cent - which could drop to 54.2 per cent if the options are exercised in full. Mr Michael Hart, chief executive of Sun Life and Provincial, said: "We are delighted by the level of demand for shares both from institutions and private investors. Demand was such that we have been unable to meet all investors' requirements in full."

sold by UAP. Sixty institutions - 55 of them UK-based - bought 80 per cent of the shares. After 20,000 prospectus applications, 11,000 retail investors applied for a stake - 14m shares worth £33m have been allocated to retail investors. Priority retail applicants, mainly employees of the Sun Life and Provincial Group, will receive their requests for shares in full - as will investors who wanted to invest between £1,000 and £6,000. Analysts expect dividend growth of about 10 per cent in 1996.

Robert Walters listing

By Geoff Dyer

The boom in the temporary labour market has encouraged Robert Walters, the recruitment company, to seek a stock market listing next month with an expected value of up to \$50m.

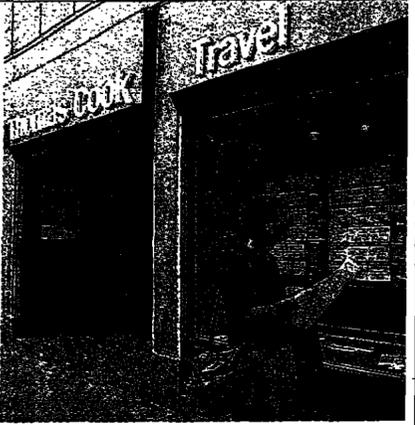
The company, which was founded by Mr Robert Walters in 1985 and which specialises in financial services recruitment, intends to raise about \$10m from selling shares. Mr Walters, who is chief executive, intends to sell shares worth \$5m, reducing his stake from 60 per cent to some 40 per cent.

Lloyds Development Capital, which has a 15 per cent stake, and the group's other executive directors, who together also own 15 per cent of the equity, will be selling shares worth about \$2m.

The company intends to raise about \$2m from issuing new shares which will be used to expand the overseas operations either in Singapore or Hong Kong. The funds raised will also be invested in expanding its facilities management business, where it handles the pay-roll and administration for large contracts of temporary workers.

Mr Walters said the flotation was necessary because "if we do not expand we run the risk of being stuck as a middle-sized business and we cannot move back to become a boutique". Flotation would also enhance the company's profile.

In 1995 it made pre-tax profits of £2.11m (£1.63m) on turnover of £24m (£19.1m). Guinness Mahon is underwriting the flotation, which is expected to take place in mid-July, and Collins Stewart are brokers.



Analysts believe the Sunworld buy is vital for Thomas Cook

Legal problems delay Thomas Cook deal

By Scheherazade Daneshkhu, Leisure Industries Correspondent

Legal technicalities are believed to be behind the delayed acquisition of Sunworld by Thomas Cook, the high street travel agent.

The £38m deal which was to have been announced last week, is now expected to be finalised this week, possibly tomorrow.

Sunworld, which is privately owned by GVI, the Spanish group, has grown to become the UK's fifth largest tour operator in five years, after Thomson, Airtours, First Choice and Cosmos-Avro. These five tour operators account for 60 per cent of overseas summer holidays and last year sold 7.5m holidays.

Although Thomas Cook has been critical in the past of ver-

tical integration, whereby tour operators and travel agents share ownership, analysts believe the acquisition is vital for Thomas Cook if it is to compete with Thomson and Airtours, which own respectively Lunn Poly and Going Places, the high street travel agents.

Thomas Cook, which last year reported pre-tax profits of £26.2m after a £20.2m write-down of its 11 per cent shareholding in First Choice, does not provide a breakdown for its two core businesses.

But analysts say its financial services arm is far more profitable than its travel retailing division.

The strategic link with First Choice forged in 1993 when Thomas Cook took a 21 per cent stake, never fulfilled its potential and has been unravelling.

Lotus expects deal in weeks

By John Griffiths

A deal with at least one "substantial" new investor in Lotus, the Norfolk-based sports car and engineering concern, will be signed within the next few weeks, according to Mr Neeraj Kapur, the group's finance director and effectively its chief executive.

To help secure funds, Mr Kapur and colleagues have had to assure potential investors that Lotus is adequately ring-fenced from sister companies controlled by Mr Romano Artioli. The Italian entrepreneur bought Lotus three years ago from General Motors but Lotus's future was thrown into doubt when his Italy-based Bugatti "supercar" company was put in receivership last year.

Lotus declined to identify incoming investors but it is expected that any agreement will include constraints on the freedom of Mr Artioli to sell Lotus.

Despite rising profits, Lotus needs new investment to expand its engineering consultancy to large carmakers, Mr Kapur said. The company is also considering a stock market float in the next few years.

Pre-tax profits of Lotus Group International, Lotus's parent, rose to £4.95m on turnover of £67.2m in the year to December from £3.5m on sales of £47m for the 18-month period to December 1994. The accounts, filed recently at Companies House, were unqualified by Price Waterhouse, the company's auditor.

Engineering consultancy was the main reason for the upturn, contributing £2.5m in operating profits. Car manufacture was also profitable, contrary to speculation in the industry. Car sales and servicing made operating profits of £1.2m last year, despite production of only 843 cars.

Deliveries of the Elise, a lightweight sports car, have begun and Lotus will produce 400 this year and 800 in 1997, Mr Kapur said.

Some 400 of the £50,000-plus Spirit V8 model launched at the start of the year will be made this year, with output expected to remain around that level in 1997.

With big carmakers seeking to out-source more of their engineering development and component systems, Lotus is keen to set up another engineering centre with a new investment partner.

It already has planning permission for a 56-acre site to complement its site at Hethel, Norfolk, which employs 1,000 in engineering and carmaking operations.

BNP to decide on sale of CIP

By Andrew Jack in Paris

Banque Nationale de Paris, the French banking group, must decide today whether to accept an offer from SBC-Warburg, the UK-based investment bank, for its majority stake in Compagnie d'Investissements de Paris.

The offer, at FF205 a share, is worth substantially more than BNP's own offer to buy out minority shareholders made last month by exchanging one of its own shares for each of CIP's.

BNP, which holds about 84 per cent of CIP, has come under pressure for the second year running by non-French shareholders trying to improve the return on their investment in the company.

The bank pre-empted the criticisms made by Warburg in a series of resolutions lodged ahead of the CIP annual general meeting, by announcing the proposed buy-out of the minority investors.

The counter-bid from Warburg, which holds about 3 per cent of CIP's shares, came after it unsuccessfully attempted to appeal to the French stock market authorities to block the BNP offer.

It argued that the price was not sufficiently high and that shareholders should have the right to a payment in cash rather than in shares.

Warburg is believed to have been frustrated by the nature of its contacts with BNP's management when it attempted to discuss the terms of the CIP bid.

It decided against launching a rival offer for all the CIP shares because French stock market regulations do not allow it to place a minimum

acceptance level on its bid. As a result, it launched a bid for BNP's 84 per cent holding, while pledging to buy out all the other CIP shareholders if BNP accepts additional pressure on BNP to justify its lower price ahead of the closing date at the end of this month.

Warburg estimates that the net asset value of CIP is FF245 a share, and is considering extending the deadline for its own counter-bid made to BNP. BNP refused to comment on the deal.

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Spanish cable TV market in disarray

By David White in Madrid

A battle over Spain's potentially lucrative cable television market has degenerated into confusion as a result of a decision by a Madrid judge.

Telefonica, the partly state-owned telecommunications company, and its majority-owned subsidiary Cablevision have been ordered to suspend activities in the sector, which is still in its early stages.

The judge's decision, in response to a case brought by rival group Cableuropa, adds to problems raised in the European Commission over the Telefonica venture. Its principal partner in the venture is the Spanish associate of France's Canal Plus pay-television group, with the aim of bringing in local shareholders in cable TV operating companies around Spain.

Telefonica and Cablevision said they would appeal against the suspension order, arguing it could hamper the development of the cable business.

Cableuropa, in which the main shareholders are Banco Santander, Banco Central Hispanoamericano and the state-controlled electrical utility Endesa, has also set up in several Spanish cities.

The judge said there was evidence that Telefonica and Cablevision had infringed the law on unfair competition. He ordered them to "abstain from any employment use or, as the case may be, cease any employment that is already being made of assets related to the

concession of the public telephone service in order to use them for other purposes and, in particular, for provision of cable television services".

Telefonica said the move threatened to lock back cable plans, with "serious consequences" for users and suppliers.

If upheld, the suspension would lead to "inconceivable scenarios" in the development of modern telecommunications services including multimedia projects.

Banks burnt in copper meltdown

The copper market has over the past two weeks provided a fresh demonstration of the dangers of options trading - both to the stability of markets and to the investment banks which deal in derivatives.

Rumours about Sumitomo's positions, and the Japanese trading house's announcement of a \$1.5m loss on copper trading, were the primary cause of the collapse in prices, which closed on Friday at \$1,890 a tonne, its lowest closing level this year.

However, the banks which sell options have accentuated the market's volatility, and have themselves suffered losses as a result.

The irony is that the activity which results in such frenzied markets is itself far from speculative. The bulk of derivatives dealing in copper arise from the rather conservative policy of producers of the metal, such as Phelps Dodge.

Producers have typically hedged themselves against a decline in copper prices by purchasing put options, which give the holder the right to sell copper at a set price.

Put options are like insurance policies which, for a modest premium, provide protection should the market fall below that danger level and threaten profitability.

The main providers of these insurance policies are investment banks such as Bankers

Trust, Goldman Sachs, J.P. Morgan, Lehman Brothers and Merrill Lynch. Using complex mathematical techniques, these derivatives dealers price put options and sell them to corporate clients.

Before the current turmoil, copper producers had typically bought put options which would pay off only if the price dropped to between \$2,000 and \$2,200. Copper (three-month futures) traded in a range of \$2,400 to \$2,700 between January and May this year. But in early June, the market fell below \$2,300.

As the price dropped towards and past the level at which the put options could be exercised, so the likelihood increased that investment banks would face claims from clients.

To protect themselves, the banks used a technique known as "delta hedging". They sold futures, establishing short positions which gained as the price fell. If the market continued to drop, any payable on clients would be offset by profits on the futures positions.

That is the theory. But the investment banks defeated their own purpose. As the copper price moved down past the critical \$2,200 level, risk models dictated that the derivatives dealers sell contracts for every \$100 tonnes for about \$100 drop in the price.

By selling as the copper price fell, the investment banks made market moves yet more

violent. They were trapped in a vicious circle. On June 8, the price went into free-fall, dropping from \$2,247 to \$1,910 a tonne within two hours.

The day was a prime example of that which derivatives dealers fear above all: "gap risk", the danger of a discontinuity in the market, during which there is no liquidity and delta hedging is impossible.

"It was horrendous. It was a nightmare," says a leading commodity derivatives practitioner. "People were trying to sell at \$3,050 but could only do so at \$1,900."

Rumours that some investment banks have made losses of \$100m each in the copper markets are almost certainly a wild exaggeration. First, some investment banks, bearish on copper,

held short futures positions over \$200 million related to options trading, and profited. Second, volatile markets, although dangerous for option sellers, often make for price discrepancies which traders can exploit. In recent weeks, for instance, the copper price on Comex has been at a premium over the London Metal Exchange: an opportunity for arbitrage dealers to sell in Comex and buy on the London market, and pocket the difference.

Third, the leading derivatives houses subject their portfolios to "stress testing" - running through worst-case scenarios, such as a repeat of the 1987 stockmarket collapse. Through these experiments, investment banks take account of the risk of gaps in the market and limit their business accordingly.

Nevertheless, it is understood that some investment banks have suffered losses in the order of \$10m each in the copper markets. This setback comes only three years after the last copper meltdown. Commodity derivatives experts expect several investment banks to scale back their copper options business as a result. Those that do retreat will be victims of their own success, burnt by the market volatility they have themselves fuelled.

Nicholas Denton

Advertisement for FT Discovery featuring a fish and the text 'Fed up with fishing for business information? FT Discovery. The instant way to hook the information you need.'

Form for FT Discovery subscription with fields for Name, Company, Position, Address, Postcode, and contact information.

Israeli company set for £40m Aim tag

By Christopher Price

BATM, a manufacturer of data communications equipment, is aiming for a valuation of about £40m when it joins the Alternative Investment Market next month.

It will also be the third Israeli high-tech company to join Aim this year, amid a growing trend of overseas groups to come to the UK market for smaller companies.

BATM was started in 1992 and unusually for a high-tech company with a large research and development arm has been profitable from its first year of trading.

Pre-tax profits rose from £1.15m to £2.82m (£1.84m) in the year to December 31 1995. Turnover increased 56 per cent to \$7.52m. Net cash amounted to \$1.15m, while shareholders' funds stood at \$4.8m.

Mr Zvi Marom, chief executive, said the company had

chosen Aim over the Nasdaq market in the US because of the more "realistic" rating attached by UK investors.

"We are a small company and we did not want to spend management time having to constantly meet with US analysts and investors in order to justify a fancy share rating. Multiples are flatter for the ego but bad for the company."

BATM intends to use the £2m it is raising from the placing to invest in a new production facility in California and to acquire interests in other datacom companies.

● Cirqual, a maker of aluminium and thermoplastic extrusions, intends to float on Aim and to raise £2m-£2.5m - to reduce gearing and facilitate acquisitions - via a placing.

The company will be valued between £10m and £20m. In the six months to February 29 pre-tax profits were £1.22m on turnover of £9.19m.

Cinven pays £28m for Routledge

By Jane Martinson

Cinven, the venture capital company, has bought Routledge from Thomson Corporation for £28m.

The amount falls some way short of the £62m it was thought the Canada-based publishing and travel group had wanted for the British academic publishing company.

Routledge, which owns the Arden Shakespeare series as well as exclusive UK rights to Carl Jung and Bertrand Russell, had sales of more than £90m in the year to December, most of which derived from the UK. It has 10 operating companies in London and New York.

Some £15m of the consideration will be equity funded by Cinven, which manages some £1bn on behalf of its clients, which include British Coal Pension Schemes and Railways Pension Schemes. Bank of Scotland will provide the debt facilities.

Bula plans Russian link up in Siberia

By Jane Martinson

Bula Resources, the Dublin-based oil exploration and production company, is set to announce a joint venture with a Russian partner to develop oil fields in western Siberia.

Bula loses the move, which it aims to announce officially in the next few weeks, will draw a line under the problems it has experienced in its two-year venture in the region.

Mr Jim Stanley, chairman, said a preliminary agreement for a joint venture had been signed with Aki-Otyr, a joint stock company with four oil-field licences in western Siberia.

The deal still needs permission from the regulator in Russia, which is set to take a further six weeks. Bula claims the Aki-Otyr fields contain 268m barrels of oil reserves.

The new deal, in which both sides take a 50 per cent stake

in a holding company which will own the oilfield licences, represented a move away from "the nightmare of the first deal," said Mr Stanley.

Earlier this month the company severed its two-year-old links with the Russian Transcontinental Financial-Industrial Corporation because it felt that the relationship was affecting its right to 51 per cent of Aki-Otyr. Aki-Otyr had disputed the ownership claim of the Russian Corporation.

As part of a complicated package to extricate itself from the connection with the Russian Corporation Bula is set to pay the Corporation \$2.1m (£1.37m) over an 18-month period for its disputed share of Aki-Otyr.

However, in return, the Corporation has agreed its stake in Bula - some 71.9m shares. The proceeds of this share sale, which Bula expects to exceed the settlement sum, will go to Bula.

WEEKEND SHARE WATCH

The negotiations are over improvements made to Brent Cross where a £6m redevelopment is taking place, with Taylor Woodrow understood to be claiming it is owed £11.4m.

United Utilities: The Sunday Telegraph said United Utilities, owner of the North West regional electricity company and Northwest Water, is talking to Utilicorp, a US utility with which it has a gas joint venture, about creating a nationwide energy company in the UK.

Utilicorp is in the middle of a contest to merge with Kansas City Power & Light, but is also keen to expand its UK presence. The company, which has gas joint ventures with Eastern and Swab, has spoken to its UK partners

about "enhancing our relationships," but it recently denied that any merger talks were under way.

The Investors Compensation Scheme, which is seeking to recover more than £30m from the West Bromwich Building Society, confirmed a report in the Sunday Telegraph that it is asking the judge that it is asking the judge to move its case against the society to January 13. This slot had been allocated to the ICS in its action against Cheltenham & Gloucester Building Society which was settled out of court last week.

The ICS has paid about £20m in compensation to borrowers who were saddled with mortgage debts because of the home income plans they took out from 15 building societies.

Priory Hospitals in £88m MBO deal

By Lisa Wood

Priory Hospitals, the private acute psychiatric group, has been bought in an £88m management buy-out led by Dr Ian Reynolds, the former managing director.

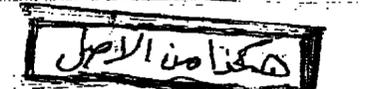
The acquisition, from Community Psychiatric Centers of America, was financed by a mixture of equity and loan debt involving the private equity division of Mercury Asset Management and Royal Bank of Scotland.

Priory claims a 55 per cent share of the private sector psychiatric care market. It employs more than 1,500

people and operates 12 hospitals, three day centres and two residential schools. It also has joint ventures with the NHS, an area of its work that it is seeking to develop further.

Dr Reynolds, who will become managing director of the group, formerly worked for the NHS as chief executive of Nottingham Health Commission before joining Priory last year.

The new company structure will include equity participation and board representation for the consultant psychiatrists with equity ownership also to be offered to some other employees.



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CONSEQUENT UPON MERGER

1. MERGER

THE CHASE MANHATTAN BANK, N.A., a national banking association established in the United States of America, wishes to inform members of the public that it is scheduled to be merged with CHEMICAL BANK, a banking organisation established in the State of New York, United States of America, on 14th July 1996 ("Merger Date"). Chemical Bank, the surviving entity, will be renamed THE CHASE MANHATTAN BANK.

2. SURRENDER OF LICENCE

The Labuan Branch of The Chase Manhattan Bank, N.A. is currently the holder of Offshore Banking Licence No. 950041C ("Offshore Banking Licence") issued pursuant to Section 6 of the Offshore Banking Act, 1990 and entitling it to carry on offshore banking business in the Federal Territory of Labuan, Malaysia.

Consequent upon the merger, the Labuan Branch of The Chase Manhattan Bank, N.A. will become the Labuan Branch of The Chase Manhattan Bank, and all offshore banking business carried out by The Chase Manhattan Bank, N.A. in the Federal Territory of Labuan, Malaysia, will be transferred to and vested in The Chase Manhattan Bank.

Pursuant to the requirements of the Labuan Offshore Financial Services Authority, Malaysia ("LOFSA"), The Chase Manhattan Bank, N.A. will be surrendering the Offshore Banking Licence to LOFSA on the first working day after the Merger Date, that is, on 15th July 1996.

3. RE-ISSUE OF LICENCE

Upon surrender of the Offshore Banking Licence to LOFSA, a new Offshore Banking Licence bearing No. 960054C will be issued by LOFSA in the name of THE CHASE MANHATTAN BANK, Labuan Branch, which licence shall entitle the Labuan Branch of The Chase Manhattan Bank to carry on offshore banking business in the Federal Territory of Labuan, Malaysia with effect from 15th July 1996.

This advertisement is taken out pursuant to Section 9 of the Offshore Banking Act, 1990 (Act 443), Malaysia.

Chargeurs
Demerger approved by Shareholders

On June 19, 1996, the Annual General Meeting of Chargeurs, chaired by Jérôme Seydoux, approved the financial statements for the 1995 fiscal year. It agreed to distribute a dividend of FF 14, plus a FF 7 tax credit, payable in cash on June 20, 1996.

The Extraordinary General Meeting held after the Annual General Meeting approved the proposed demerger into two companies: Chargeurs International for industrial activities and Pathé for entertainment activities.

Key dates of the demerger operation:

June 21, 1996, approval of the demerger by the Extraordinary General Meetings of Chargeurs International and Pathé.

Dissolution of Chargeurs, without liquidation of the company. Delisting of Chargeurs shares from the Official List of the Paris Bourse at the close of trading on June 21, 1996.

June 24, 1996, Chargeurs International and Pathé shares quoted for the first time on the Monthly Settlement Market of the Paris Bourse.

FINANCE

FACES

Masera steps
back into
the limelight

The flotation of Mediaset, Silvio Berlusconi's television and advertising business, has marked the return to the limelight of Rainer Masera, director-general of Imi, the Italian banking group, writes Andrew Hill. It is just six months since Masera ended his 12-month "sabbatical" as budget minister in Lamberto Dini's technocratic government.

Imi and Morgan Stanley are global co-ordinators of the flotation, which is expected to raise some £7,000bn-£8,300bn (\$4.5bn-\$5.3bn). Masera was Imi's man on the podium for last week's Milan launch of the Mediaset investment roadshow - a position taken up to now by his deputy, Vittorio Serafino, who stood in for Masera while he was budget minister.

Masera, 52, hasn't joined the international leg of the roadshow, which this week moves from London to the US. But he should be back again in Milan for the first day of Mediaset trading on July 15.

His absence may be because Masera is kept busy by other deals on Imi's plate, notably the disposal of the treasury's shares in Ina, the insurer, in Imi itself, and in Eni, the partially privatised oil, gas and chemicals group. Imi is joint global co-ordinator in all three deals; the Ina disposal was carried out last week; the Imi placing should take place next month and the Eni public offer during the autumn.

It is probably just coincidence that the treasury scheduled those three privatisations ahead of the planned sale of shares in Stet, the telecoms group, and Enel, the electricity producer - jointly co-ordinated by Imi's rival, Mediobanca, the Milan merchant bank.

But a word in the treasury's ear from a former minister can't have done any harm.

Bob Diamond: an
American in London

The Americanisation of the City of London continues apace. In the latest example of a US executive taking a top position at a London-based bank, Bob Diamond has moved from CS First Boston in New York to become head of global markets at Barclays de Zoete Wedd.

The appointment is due partly to the ambition of the Barclays Bank division to build its dollar bond business. Acquiring Diamond is the answer to rival's National Westminster Bank's purchase of Greenwich Capital, a leading US government bond broker.

Diamond, who earned at least \$5m last year at CSFB as head of fixed income, may well stand to earn more in the grander position he will occupy at BZW. It is likely therefore to be the richest package earned by any Barclays executive, but a BZW executive says hiring Diamond, and the former colleagues who are expected to follow him, is more cost-effective than paying \$500m for Greenwich.

While the appointment says something about BZW's ambitions in the US market, it also underlines the demand for American and Americanised investment banking talent among European banks. For instance, the global markets division of another leading European house, Deutsche Morgan Grenfell, is dominated by Edson Mitchell and his former colleagues from Merrill Lynch.

The attraction is mutual. For US executives, the European banks are increasingly attractive places to work. They are well capitalised and serious about their investment banking ambitions. The traditional reluctance to pay Wall Street salaries is

disappearing. And, despite the cultural differences, the European houses may be easier to manage in some ways.

Diamond left CSFB after a row over bonuses broke out at the firm. The bonus pool for 1995 was deep, but mortgage-backed bond traders, and the rest of the fixed income department, each felt they deserved and had been promised a larger share. Diamond either mismanaged expectations, according to his detractors, or was a convenient scapegoat.

After CSFB, navigating BZW will be a piece of cake.

Newton's dynamic
duo move on

Investment managers William Meadon and Peter Harrison seem to have decided that it is safer to move through the City of London as a pair, writes Jonathan Guthrie. The two trained together at Schroders, left after five years for Newton, and after another five years and a spell of gardening leave are due to join Flemings in September.

Meadon, 36, headed an important role at Newton. He headed the specialist equity desks, with £4.5bn (\$6.8bn) in assets, and managed the \$26m Newton Higher Income Fund, which gave him a high profile in retail fund management circles.

His recruitment to Flemings raises some awkward questions. While the move by Harrison, 31, from Newton's balanced desk to the ranks of Flemings' UK equity managers looks like a step up - from an employer with just £10bn in assets to one with £50bn - for Meadon, who will no longer head a desk, it represents a sideways move at best.

John Ellwood, Newton's corporate affairs director, rejects any suggestion that the pair's departure was prompted by weak 1995 performance and a reorganisation following a merger with Capital House, the Royal Bank of

Scotland subsidiary, in 1994. He says: "It's always sad to see bright young men go, but there are no stars at Newton... They have made a career move based on money."

According to Pete Seabrook, chief investment officer of Flemings Investment Management, Meadon and Harrison were attracted to the newly-created posts because his operation has grown rapidly and performed strongly over five years: "They couldn't have come if that hadn't been the case," he comments.

Newton has promoted Toby Thompson, UK specialist investment manager, to the post vacated by Meadon. Connie Fung, the ex-Capital House sales and marketing manager, has meanwhile been recruited from Invesco. She will re-establish Newton's presence in Hong Kong, from which it has been absent since 1994.

Lagos flies in as
Serfin seeks a partner

Adolfo Lagos, chief executive officer of Mexico's third largest bank, Serfin, was in the UK last week, writes Stephen Fidler. Surprised by the FT at his London hotel, Lagos said he was in town to talk to Serfin's correspondent banks and to the Bank of England. However, with Serfin looking for a foreign partner and linked in the Mexican and US press with Hongkong and Shanghai Bank, his visit could have had another purpose.

Lagos, who took over Serfin in March, declined to say whether talks with Hongkong and Shanghai were going ahead. "I'd rather make no comment. There has been a lot of speculation that hasn't been beneficial for anybody."

He acknowledged, however, that the bank was looking for a partner to take a 16 to 20 per cent stake. As one of the three largest Mexican banks, Serfin - along with Banamex and Bancomer - cannot be taken over by foreigners. Since US banks usually insisted on controlling their foreign affiliates, Lagos said it was more likely that the partner would come from outside the US. JP Morgan is helping Serfin find the partner.

This is just one part of a plan to ensure the bank, with its 600 branches, emerges out of its difficulties. JP Morgan has also come up with 18-month bridging loan and ING Barings a five-year credit facility, together totalling \$70m. Serfin is expected to complete the sale of 49 per cent of its insurance subsidiary in the third quarter; it wants to raise \$200m-\$250m in subordinated debt by the year end; and has already sold a second package of \$2.6bn of dud loans to the government. On top of that, its main shareholders, which include Monterrey's powerful Sada family and the Vitro glass company, are chipping in a further \$140m of equity.

Until recruited by the Sada family this year - an appointment that would have been approved by Mexico's bank regulators - Lagos had worked for 23 years for Bancomer, Serfin's bigger and stronger rival. He said he found the culture of the two banks very different, adding only that Serfin was not in great shape at the time of privatisation five years ago.

It was then that the Sadas unsuccessfully first tried to hire him, but it has taken several years and Serfin's recent travails to complete the move.



Rainer Masera: kicking off the Mediaset roadshow, just six months after ending his year's 'sabbatical' as budget minister, while three other big flotations sit on his desk

Restrictionist governments may
fail to see folly of their ways

Norma Cohen calls for an improved understanding of risk so regulations eliminate only the 'truly drunken drivers' of the international investment community

Some activities, such as driving while intoxicated, are considered so dangerous that governments forbid their citizens from engaging in them. The urge to protect people from the folly of their own actions, however, sometimes has strange effects. Take the rules which some European governments set for the investment of pension assets.

Germany, Belgium, Switzerland and Denmark all, to a greater or lesser degree, require pension assets to be invested in their own government bonds, taking the view that this will ensure that when Aunt Agatha finally retires, the money will be there.

But a study from the European Federation for Retirement Provision, a pensions lobbying group, suggests that many governments have a fundamental misunderstanding of investment risk. The requirement to buy bonds has not only increased the costs of providing pensions but has made portfolios riskier, rather than safer.

Of course, portfolio diversification, both by assets and currency, has long been the man-

tra of investors in the US and UK and there are ample academic studies to support their action.

But the study for the first time quantifies the cost of investment restrictions. It also examines the risk-adjusted rates of return on various European Union pension portfolios and concludes that when the volatility of government bonds is taken into account, too much risk is being taken for too little return.

In Germany, the gap was even more evident. Pension funds achieved a 3.63 percentage point a year better performance on German equities compared with bonds during 1984-1993.

To be fair, it is not simply government restrictions which are keeping pension fund managers from investing in equities. The fixed interest culture

FUND
MANAGEMENT

is particularly strong in Germany where, despite privately held financial assets of some DM4,000bn, only 5.4 per cent of the population are shareholders, against 35 per cent in Sweden, 21 per cent in the UK and 16 per cent in France.

"Germans spend more money on bananas than they do on equities," Mr Norbert Walter, chief economist at Deutsche Bank, told a recent pensions conference. There are signs of a slight shift in Germany where 25 per cent of pension assets are held in so-called special funds where they are invested in equities and international bonds, against 15 per cent in 1985.

But what private investors choose to do with their own assets is up to them. One would expect professional investors to know better. It is foolish to pretend that investing in government bonds is risk-free. In addition to an element of counterparty risk, there is duration risk - that bonds do not mature in time to provide cash to pay liabilities - interest rate risk and yield-curve risk - that short term rates rise higher than long-term rates.

The insistence on maintaining investments in relatively low-yielding assets while ignoring the risks translates into higher pension costs. The

EFRP calculates that an individual whose pension assets underperform his peer group by 1 per cent a year over a 35-year working life will have a pension which is 30 per cent lower in value.

The EFRP examined the average investment portfolios in various EU member states and found that Ireland, with no investment restrictions and a heavy bias towards equities, had the highest real returns in 1984-1993 of 10.25 per cent. The UK was close behind with 10.23 per cent. For these two countries, the cost of providing supplementary pension equal to 35 per cent of final salary for a worker with a 40-year employment history is 5 per cent of annual salary a year.

In the Netherlands, where, despite the absence of investment restrictions, portfolios are still fairly heavily invested in bonds, that cost rises to 10 per cent of each worker's pay. In Germany, the investment profile and its real returns of 7.15 per cent require contributions equal to 13 per cent of each worker's pay. And in Switzerland and Denmark, where real returns are 4.4 per cent and 6.33 per cent a year, contributions equal to 19 per cent of pay are required.

Thus, there is a new kind of risk which governments must take into account when setting guidelines for pension funds: the risk that there will not be enough money to pay pensions when the day of reckoning arrives. Alternatively, there is the political risk that employers and/or employees will refuse to stump up.

But perhaps it is reasonable to accept lower rates of return because these are justified by the lower risks inherent in the portfolios? Not necessarily so, say the EFRP, which calculated risk-adjusted rates of return on various asset classes.

Ironically, UK government gilts, an asset class which had been disappearing from portfolios of UK pension fund managers between 1984 and 1993, offered about the best return/risk premium of any fixed interest investment on the continent. During those years, Germany's domestic bonds had a return/risk ratio about two-thirds that of the UK.

Overall, on a risk-adjusted basis, the UK, the Netherlands, Belgium and Germany all had fairly similar rates of return. Yet real returns varied widely. Spanish pension funds, which are free to invest in any asset class they wish, put all but 4 per cent of their assets into fixed interest and scored the lowest return/risk ratio of any EU pension portfolio. Spain was the only EU country whose pension funds would have had higher risk adjusted rates of return by investing in international bonds rather than their own, despite the comparatively high yields the latter offered.

It is easy to conclude that governments must have had investors but professionals also make poor choices even when left to their own devices. The biggest need is for better understanding of risk so government regulations eliminate only the truly drunken drivers in the investment community.

Country	PENSION FUND REAL RETURNS 1984-93		
	Average return	Inflation	Excess
Ireland	14.04	3.79	10.25
UK	15.49	5.25	10.23
Belgium	11.80	2.98	8.82
The Netherlands	9.53	1.88	7.65
Germany	9.38	2.23	7.15
Denmark	9.99	3.66	6.33
Switzerland	7.60	3.20	4.40

Source: European Federation for Retirement Provision

ING BANK
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MARKETS
THIS WEEK

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Global Investor / Philip Coggan

'Safety first' may herald change

The phenomenal first quarter rise in Japan's gross domestic product, together with the recent strength of the US non-farm payroll figure, has revived the debate over whether global interest rates are on the turn. After many years in which one leading economy or another has spluttered, there is the prospect, later this year or early next, that the industrialised countries could be growing in unison.

(as measured by three month special drawing rights deposits) have dropped in nine and risen in five. In the years when rates were falling, the FT S&P World Index rose by an average of 16.34 per cent, against a gain of just 7.16 per cent when rates were on the up.

survey in September." In the US, some are expecting the Federal Reserve to raise rates in early July. One potential constraint is the electoral timetable and President Clinton has made warning noises against higher rates.

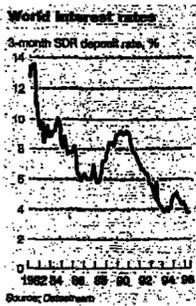


Table with columns: US, Japan, Germany, France, Italy. Rows: Cash, Week, Month, Year, Bonds 3-5 year, Bonds 7-10 year, Repurchase.

COMPANY RESULTS DUE

Proton set to benefit from stronger currency

Perusahaan Otomobil Nasional (Proton), the Malaysian car maker, is expected to report next week year to March profit of M\$320m-M\$352m (\$140m) up from M\$332m in the previous year, according to analysts' forecasts.

approval to raise its car prices last year, based on the year's earlier strength. "They would not reduce their prices despite the lower yen [now]," he said.

said: "Proton is a straightforward buy. There are not a lot of good motor stocks around." He said in the immediate term, Proton's drive to reduce costs by 5 per cent every year should result in increased margins.



he added. A local analyst said the yen could also easily appreciate against the Malaysian dollar this year and limit profitability.

up the car market now. "The government will drag its feet [on this] as long as possible," the Peregrine analyst said.

about \$35m for the current year. The main fear is that Mr Norman may not stay at Asda forever.

start to rise in the world's three most important economies. The effect on the various equity markets might be quite different, however.

There is a sharp contrast with continental Europe where a full-blown economic recovery has yet to happen, says Mr Scooch. He feels the effect of rising interest rates will be more severe on equity markets in the US than in Japan or core Europe.

INTERNATIONAL EQUITIES By Antonia Sharpe

Ina highlights convertible mileage

The launch last week of the Italian government's \$2.1bn offering of bonds exchangeable into Ina, the insurance company, has crowned 1996 as the year of the convertible bond.

pose of its residual stake in Ina, since the poor performance of the share price since privatisation two years ago ruled out a further equity offering.

year, a good insight into the global interest for Italian equities without cannibalising that demand.

About 60 per cent of the dollar-denominated tranches of the offering were sold to dedicated convertible bond investors; the proportion of the lire-denominated tranches was a much lower 26 per cent.

Independent Newspapers Around the World

OPERATING HIGHLIGHTS

- Ireland: Ireland's largest newspaper publishing Group. Increased contribution from publishing operations.
New Zealand: Purchase of 45.15% interest in Wilson & Horton, the largest newspaper publisher in New Zealand by Independent Press Limited.
United Kingdom: Purchase of business and titles of London Recorder Newspapers, Limited.
Portugal: Increase shareholding to 11.8% in Jornalgeste SCPS, the largest newspaper publishing group in Portugal, with additional interests in commercial radio.
France: Formation of Sirocco International, a jointly owned 50/50 venture between Sirocco, a subsidiary of Independent Newspapers, PLC and Avenir Havas Media, the largest outdoor advertising company in France.

Table with columns: 1995, 1994. Rows: Turnover, Operating Profit, Profit before Taxation, Earnings per Share, Dividends per Share, Shareholders' Funds.

INDEPENDENT NEWSPAPERS, PLC

Full financial statements for the year ended 29 December 1995 will be delivered to the Registrar of Companies and carry an unqualified Audit Report. Copies of the Report may be obtained from The Secretary, Independent Newspapers, PLC, 1-2 Upper Hatch Street, Dublin 2.

FT/S&P ACTUARIES WORLD INDICES. Table with columns: Country, Index, % Change, etc. Rows include Australia, Austria, Belgium, Brazil, Canada, Denmark, Finland, France, Germany, Hong Kong, India, Ireland, Italy, Japan, Korea, Malaysia, Mexico, Netherlands, New Zealand, Norway, Singapore, South Africa, Spain, Sweden, Switzerland, Taiwan, Thailand, United Kingdom, USA, etc.



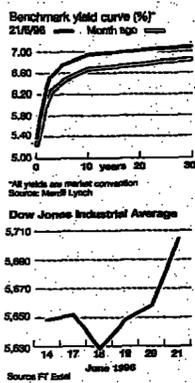
Dr. M. O'Rielly

Handwritten signature or stamp in Arabic script.

MARKETS: This Week

NEW YORK By Richard Tomkins

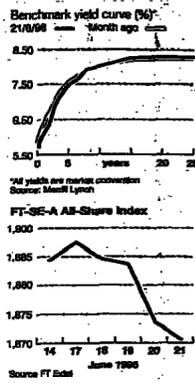
US stock indices posted some of their best gains in nearly three weeks late on Friday, but the trading was related to the "triple-witching" expiration of certain options and futures, so it gave little guidance to underlying trends.



In fact, stocks and bonds will probably be searching for direction this week in the run-up to the meeting of the Federal Reserve Open Market Committee on July 2 and 3 - not least because of the paucity of economic data due out over the next few days.

LONDON By Philip Coggan

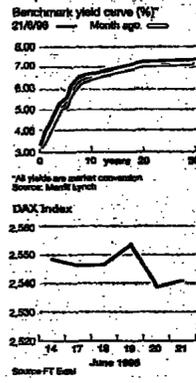
Rival summer attractions took much of the interest away from the UK markets last week, and with the start of Wimbledon today, it may take some convincing news to spark trading activity.



The main interest this week will be in figures on April and May trade and the first-quarter current account. Mr John Shepperd, chief economist of Yamachi International (Europe), is looking for "a modest deterioration in these numbers".

FRANKFURT By Wolfgang Munchen

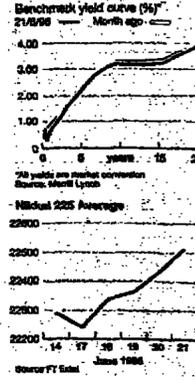
The rise in the headline M3 rate in May of 10.5 per cent has put paid to any lingering hopes of a fall in German short-term interest rates for the time being, as the Bundesbank looks increasingly at risk of missing its M3 target range of 4 per cent to 7 per cent.



Most German economists agree that the security repurchase (repo) rate will remain stuck at 3.30 per cent for the time being, but they disagree on whether the next movement in the repo will be upwards or downwards.

TOKYO By Brian Keenan

Investors will be focusing on whether the Tokyo stock market will be able to remain above the psychological barrier of 22,500 reached last week. During the past 10 years, trading has been most concentrated around 22,000 to 23,000, creating a strong technical resistance for the Nikkei index.



One reason for investors to be optimistic about the market's course is the return of foreign investors, who have been absent over the past few weeks after the rally at the start of the year. According to the Nihon Keizai Shimbun, the leading business daily, trading by overseas investors accounted for about 30 per cent of total volume on Friday.

COMMODITIES By Kenneth Gooding

Gold's behaviour puzzles

The annual Financial Times Gold Conference opens in Venice today and not for the first time some delegates will be scratching their heads about the behaviour of the precious metal's price.

Metal Exchange has raised the initial margin on copper to an unprecedented \$600 a tonne compared with the usual \$200. The London Clearing House has taken in an extra \$3.5bn and some other metals have been sold to provide this cash.

between demand for physical gold and conventional supply - mine production and scrap. The Gold Fields Minerals Services consultancy organisation in its recent annual review, estimated the gap was 633 tonnes. GFMS suggests it was filled by record hedging of future mine production and sales by central banks - both topics to receive attention at the FT Conference.

OTHER MARKETS Compiled by Michael Morgan

PARIS

The demerger of Chargeurs, and the French communications and textiles group, into two separately quoted businesses takes effect today. Pathé will take on the communications and media interests, including a 17 per cent stake in BSkyB and a 20 per cent stake in the CanalSatellite broadcasting network.

HONG KONG

Futures activity is expected to dominate what is set to be another quiet week, writes Louise Lucas. A combination of summer holidays, a lack of fundamentals to drive market direction and a wait-and-see attitude towards US data is expected to suppress turnover and dampen performance.

land and Hennes & Mauritz in Sweden last week - have come in above expectations while optimism has been rising in the Swedish bond market, where the spread to Germany is down to 170 basis points. UBS says companies are cautious on current market prospects, but most will buy the recovery wisdom that an improvement will start showing through at some point in the second half. Of increasing importance will be the ability of investors to look through foreign exchange hedging figures in 1996 accounts to spot the real generators of earnings growth in 1997.

dropping to only 287 basis points, a fall of a quarter of a percentage point on the week. Spanish spreads fell by 26 basis points to 233. Italian money market contracts also gained ground, with the September three-month euribor contract settling on Friday at 92.07, a rise of 0.85 on the week. Falling inflation and the expectation of interest rate cuts have fuelled investor interest and this week could see some further outperformance, especially at the short end of the curve.

Many analysts, however, are now recommending that investors take profits in the 10-year sector. Mr Graham McDevitt, senior bond strategist at Paribas Capital Markets, does not expect Italian and Spanish spreads over bunds to fall much below 275 and 235 basis points respectively.

CROSS BORDER M&A DEALS

Table with columns: BIDDER/INVESTOR, TARGET, SECTOR, VALUE, COMMENT. Includes deals like IAT Group (Chile) acquiring Fresh Del Monte (US), Petronas (Malaysia) acquiring Engen (S Africa), etc.

CURRENCIES By Philip Gault

Foreign exchanges set for quiet trading ahead of G7

Foreign exchanges look set for a quiet week ahead of the G7 meeting in Lyon, where exchange rates will feature on the agenda for discussion. Mr Robert Rubin, the US Treasury Secretary, said on Friday that a paper would be released at the summit on foreign exchange markets and other international reforms designed to make the world economy more resistant to shocks like the Mexican peso crisis in December 1994.

Whether the paper has the potential to affect exchange rates is difficult to predict. Following a mid-month bout of nerves, the dollar finished last week in firmer shape and may well be poised to try to break through 110. The Bundesbank continues to make the right noises about a stronger dollar, but its rally against the D-Mark still lags behind its performance against the yen.

Last time the dollar was around 110, it was in early 1994, it was above DM170, compared with DM153.50 now. Arguably the main focus from a dollar perspective at present is when the Federal Reserve will decide to tighten monetary policy. There will be little fresh US data this week, and the market is likely to focus its attention on the employment report next Friday, which will provide the background for the next FOMC meeting on July 2-3. Although raising rates is likely to have a less dramatic effect than in 1994, it is still the sort of policy decision that can prompt sharp exchange rate movements.

With the main exchange rates at levels of which most governments approve, the G7 is unlikely to have much to say - beyond re-affirming that rates have moved more into line with fair value.

A host of Japanese data releases this week is expected to quell fears of an early rise in official rates following the extremely strong first-quarter GDP figure last week. Despite this, economists at IBI International in London believe the economy's recovery is looking "more and more sustainable". They are predicting that the Bank of Japan will raise interest rates after the September tankan report.

FT GUIDE TO WORLD CURRENCIES

Large table showing exchange rates for various currencies against the US Dollar, UK Pound, and Deutsche Mark. Includes columns for currency codes and rates.

SIGMA SECURITIES S.A. - MEMBER OF THE ATHENS STOCK EXCHANGE. Includes contact information and a list of securities.

INTERNATIONAL DEPOSITORY RECEIPTS REPRESENTING SHARES PAR VALUE \$2.50 COMMON STOCK. J.P. Morgan and Co. Incorporated.

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CORINAGA FIF 1,000,000,000 FLOATER EIGHTEEN MONTH NOTES DUE 1997. Includes coupon rate and principal amount.

U.S. \$191,000,000 Republic of Ecuador Interest Equalization Bonds due 2/04.

WORLD STOCK MARKETS

Table of world stock markets including sections for EUROPE (Austria, Germany, France, etc.), ASIA (Japan, Korea, etc.), and PACIFIC (Australia, New Zealand, etc.). Each section lists various stock indices and their performance.

Advertisement for Peregrine featuring an eagle and the text: 'Asia - Buy, Sell or Hold? Speak to Peregrine, the leader in Asian equities, derivatives, country funds, fixed income securities and GDR's. PEREGRINE Asia focus, global distribution. Hong Kong Head Office: 252 2535 1828 London Office: 44 171 655 8858'

Table of world stock markets (continued) including sections for SOUTH AMERICA (Brazil, Chile, etc.), AFRICA (South Africa), and ASIA (Thailand, Singapore, etc.).

INDICES

Table of various stock indices including Argentina, Australia, Canada, Denmark, France, Germany, Hong Kong, India, Japan, Korea, Malaysia, Mexico, New Zealand, Norway, Philippines, Singapore, South Africa, South Korea, Taiwan, Thailand, and USA.

US INDICES

Table of US stock indices including Dow Jones, S & P 500, NASDAQ, and NYSE.

AUSTRALIA (Jun 21 / ASX)

Table of Australian stock market data including various indices and individual stock prices.

NEW ZEALAND (Jun 21 / NZSE)

Table of New Zealand stock market data including various indices and individual stock prices.

SOUTH AFRICA (Jun 21 / JSE)

Table of South African stock market data including various indices and individual stock prices.

INDEX FUTURES

Table of index futures for CAC-60, DAX, and Nikkei.

US S&P 500

Table of US S&P 500 futures data.

US TRADING ACTIVITY

Table of US trading activity including volume and price changes for various indices.

TOKYO - MOST ACTIVE STOCKS

Table of most active stocks in Tokyo.

NORTH AMERICA

Table of most active stocks in North America.

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IRELAND

Old certainties die in economic transformation

Increased prosperity as a result of EU membership has been accompanied by dramatic social and political change, says John Murray Brown

In Ireland, it used to be said that there are three things that will never change - the Church, the Fianna Fáil party and the Gaelic Athletic Association.

Today, only the hurlers and Gaelic footballers seem assured of a stable future, as Ireland's political and social landscape is revolutionised.

As the coalition of Mr John Bruton prepares to take on the six-month presidency of the European Union, Ireland is barely recognisable as the country that voted overwhelmingly to join the European Economic Community in 1972.

No longer culturally insulated, Ireland feels itself to be firmly part of the European mainstream. Tastes have changed, along with experiences and expectations, as conservative political mores and a largely rural culture give way to an urban, pluralist and individualistic society.

To anyone returning after some years away, the transformation is stark. Dublin - like other leading European cities - is now cosmopolitan, exciting and increasingly expensive. Much to the chagrin of some of the city tourism chiefs, it has recently been dubbed the "stag night capital of Europe".

The feel-good factor is unmistakable. Car sales are at record levels, as are house prices. Ireland now has one of the highest levels of home ownership in the world - one reason why it is imperative for politicians to keep interest rates down.

At an official level, too, there is a palpable self-confidence. "European membership has added to rather than diminished our sovereignty," says Mr Michael Mulcahy, a Fianna Fáil senator.

Mr Ronan Fanning, professor of modern history at University College Dublin (UCD), concurs: "The experience has been psychologically liberating for us, whereas for Britain it has been restricting."

Ireland no longer sits on the periphery with its hands out for the Brussels largesse. Investors are starting to look at the country for perhaps the first time. Mr David McWilliams, an economist with UBS, the Swiss Bank in London, estimates that in 1996 the Irish economy will grow at over three times the European average, making it comparable with the Asian Tigers.

On the inflation front, Ireland's record has been, and should remain, vastly superior to that of the Pacific Rim. Thus, at a time when the rest of Europe is faltering, Ireland offers the investor emerging markets style growth with western European inflation," he says.

Notwithstanding the investment banker's natural propensity to hyperbole, Ireland's economic record gives the lie to those who feared that the so-called peripheral member states would remain a constant drain on Union resources.

Fueled by a surge in the labour supply, Ireland has been the fastest growing economy of the European Union for the past four years. Gross national product increased by more than 7 per cent in 1995, according to the latest annual report of the Central Bank of Ireland.

Indeed, on debt, the budget deficit, and inflation, Ireland is currently one of only three countries - together with Luxembourg and Germany - that meet the Maastricht conditions for monetary union, according to the European Commission's latest report.

The combination of a tight fiscal and monetary policy and real wage moderation has secured Ireland's position in a strong position to participate. The current account is in record surplus, underlining competitive gains, despite the appreciation of the currency against that of its biggest trading partners.

Irish industrial policy, centred on targeting high-technology sectors and driven by a 10 per cent tax regime for manufacturing companies, has helped to fuel a 25 per cent increase in jobs since 1985, against the trend of greater joblessness in the rest of Europe. In 1995, Ireland created 45,000 new jobs.

Under the watchful eye of the National Treasury Management, a privatised agency entrusted with handling the country's £30bn debt, service costs have been reduced in every year since 1991. With the strong growth in Gross Domestic Product, the debt/GDP ratio fell by 5 percentage points - from 84.1 per cent at the end of 1994 to an estimated 79.1 per cent at the end of 1995. According to Commission officials, Ireland is "approaching" the 60 per cent ratio outlined by the Maastricht treaty.

This rising prosperity has been accompanied by marked changes in social behaviour. Birth rates have fallen by a third in western Europe in the past decade. In Ireland the rate has halved.

The number of children born out of marriage - a phenomenon that was rarely heard of in Ireland - is also increasing, reflecting the diminishing influence of the Roman Catholic Church, whose role was, until the 1970s, enshrined in the Irish Constitution. In a referendum in November, voters gave their approval, albeit narrowly, to the introduction of legislation making divorce possible, marking a further erosion of the Church's hold over public opinion.

While in Germany and elsewhere in Europe, officials are worried about a demographic profile that will place the burden of supporting an increasing number of older people on a smaller workforce, in Ireland larger numbers, and in particular more women, are being drawn into the workforce, bringing female activity rates closer to European norms. Twenty years ago, emigration was commonplace up to a third of each generation left Ireland for a "better" life.

Today, there is a reverse trend, as graduates come home, bringing with them new skills. Of those with a third-level education, 80 per cent have worked abroad. For the population as a whole, around 10-15 per cent have lived overseas.

Mr John Fitzgerald, an economist at Dublin's Economic and Social Research Institute, believes the real change lies in improvements to education, dating from the late 1960s when secondary education became free. "We were just 20 years later than the rest of Europe," he says.

Today, Ireland has one of the youngest and best educated populations in Europe. More than 50 per cent of school leavers go on to third-level education. One of the most striking statistics is that the highest rates of participation in third-level education are in Kerry and Mayo, two of the most rural and isolated counties.

All of this has had an equally turbulent effect on the complexion of Irish politics, with the smaller and newer parties - Labour on the left and the Progressive Democrats on the right - shaping much of the political debate.

A younger electorate is chal-

The vote to legalise divorce marked a further erosion of the Church's hold over public opinion

lenging the sterile divisions between the two main centre right parties, Fianna Fáil and Fine Gael, which have defined Irish political life since the civil war in the 1920s.

The challenges are considerable. Ireland has approached previous EU intergovernmental conferences with the objective of securing financial support but as Mr Dermot Scott pointed out in a recent paper for the Institute for European Affairs, the country is for the first time not entering the current conference - aimed at simplifying and reforming the Union's structures to prepare for the accession of new members - with this expectation.

The key issues to be tackled by the IGC - enlargement, institutional reform, monetary union and the common foreign and security policy - are all vital to Ireland's interests. But Mr Dick Spring, the Irish foreign minister, says membership of the European Union should not be seen as a matter of money alone.

According to opinion polls, there is over 75 per cent sup-



Dublin's Dail, where politicians speak of the liberating effect of EU membership and prepare to meet the Maastricht criteria for economic and monetary union

port for Ireland's entry into a monetary union in the first stage of the single currency. In principle, Dublin is committed to participating, but official enthusiasm contrasts with the scepticism of some economists. Ireland's options are complicated by the prospect that the UK, its largest trading partner, may choose to stay outside.

"We certainly wouldn't choose to have our own currency, if we were designing an economy now. But if the UK is not inside, we would have no instruments to cope. In the 1992 crisis [when Britain left the Exchange Rate Mechanism] with the stroke of a pen Irish exporters became uncompetitive," says Mr Brendan Walsh, head of economics at UCD.

The debate is also being conducted at a time when Ireland prepares to lose its status as an Objective One region, eligible for Commission support.

The country's income per capita is already estimated at around 86 per cent of the Union average. Unless it redesignates itself as a series of regions, Ireland will soon be ineligible for support. Nevertheless, many economists believe it is misleading to exaggerate "doomsday" predictions about what will happen when the current Community Support Framework runs out in 1999.

Many of the EU projects are based on matching funds being provided by the government. With the government unlikely to be willing to make up in full any EU shortfall, the number of projects able to proceed would be fewer.

EU structural funds, available for areas with less than 75 per cent of the Union average per capita income, are currently running at around £1bn a year, and are an important part of the Irish budget and the

balance of payments. Goodbody stockbrokers in Dublin calculates that the current account surplus, now at 8 per cent of GNP, would be reduced to 2.5 per cent without the net flows from the EU.

Equally, the exchequer borrowing requirement (EBR), which in 1995 was 2.3 per cent of GNP, would increase without EU support to 7.7 per cent - outside the 3 per cent criterion set by Maastricht for members to join the monetary union.

However, it is unemployment that remains the significant blight on Ireland's record. Mr Richard Bruton, the minister for enterprise and employment, says the current economic growth has largely bypassed the long-term unemployed. Indeed, the latest figures suggest the long-term unemployment picture is getting worse, not better.

Mr Ruairi Quinn, the Irish finance minister, says defeating the scourge of joblessness, which is running at 12.7 per cent of the workforce, will be the real ERM test.

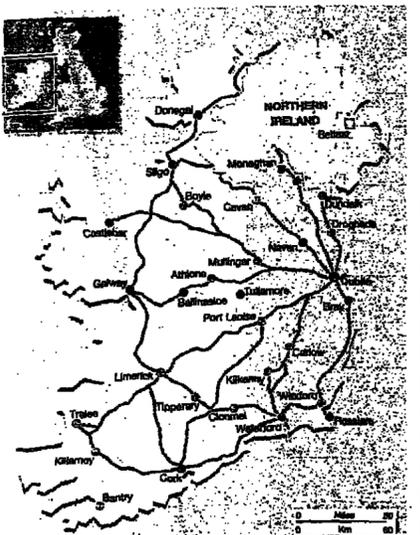
"Conventional market mechanisms will not resolve the problem of the long-term unemployed. But there will have to be different kinds of intervention. The problem is how do you place people into the market economy and not screw up your cost base?" he says.

Professor Walsh says it will be critical for the government to secure moderate wage increases, when it renegotiates the programme for competitiveness and work - a social pact that brings industry, labour and government together in an arrangement that exchanges fiscal concessions for wage moderation.

With a general election due next year, this is a time for the government to hold its nerve. The rewards will be great.



Trinity College, Dublin: today, more than 50 per cent of Irish school leavers go on to third-level education



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2 IRELAND

Politics by John Murray Brown

Pragmatism in pursuit of power

Alliances between the parties could be redrawn in the run-up to next year's election

Principle is giving way to pragmatism, as Ireland's political parties enter the countdown to the next general election...



John Bruton, prime minister



Dick Spring, Labour leader



Bertie Ahern, Fianna Fáil leader



Prionsias De Rossa, DL leader

months earlier, many pundits had blamed Mr Ahern for Fianna Fáil's poor performance in the Wicklow by-election...

Party strategists will be scrutinising the results, Labour will be particularly alarmed at the outcome in Dublin West...

In many ways, the shape of the next government will depend on Labour's performance. The party, however, has been through a rough patch recently...

However, Mr Bruton's advisers believe there has been a mood swing in the country. While some have criticised the prime minister for a low-key performance...

KEY FACTS

Table with 2 columns: 1996 and 1995. Rows include Area, Population, Head of state, Currency, Average exchange rate, Total GDP, GDP per capita, Components of GDP, etc.

Although no analyst is suggesting that this foreshadows a re-union of the two civil war parties at national level...

The Labour leader's decision to employ his former key adviser, Mr Fergus Finlay, to help in the management of the

The opposition, Fianna Fáil, could again find itself teaming up with Labour

electoral programme was seen as a clear sign of the party's mounting concern about its performance at the polls.

Perhaps Mr Bruton's central achievement has been to restore some propriety to the Taoiseach's office...

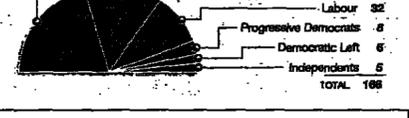
Most commentators believe the parties will keep their powder dry until the discussions for the 1997 budget. As the election day approaches...

All the parties are likely to want to be seen as champions of the cause of lower taxes, ahead of an election...

On Northern Ireland, there has been a fairly loose cross-party co-operation. On more than one occasion...

In particular, there is resentment that Labour's ministerial team led by Mr Spring...

Seats in the Dail



Foreign policy by Edward Mortimer

The UK dilemma

The Republic's links with Britain often compromise its role as a 'good' European



The European parliament, where British and Irish attitudes diverge

"An island behind an island." That description of Ireland's geographical situation still encapsulates its main foreign policy dilemma...

Until the 1990s, Irish foreign policy was directed mainly at achieving the fullest possible political separation from the UK...

Joining the EC in 1973 enabled Ireland to diversify its economic relations and to attract foreign investment. By joining the ERM in 1978...

Since the 1960s, Irish governments have also, in a sharp reversal of earlier policy, worked to soften the north-south division...

the "European pillar" of Nato. Even the government's proposal in its white paper to "explore the benefits" of Irish participation in Nato's Partnership for Peace programme...

If the EU ever does acquire a defence dimension, or if (as is perhaps more likely) Ireland becomes a net contributor to the EU budget...

A similar but more acute dilemma will arise if plans for economic and monetary union go ahead in 1999 with Britain exercising its right to opt out.



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SPAIN

Constrained by its future and its past

Allegiance to a united Europe imposes tight economic targets, while the country's past carries legacies of red tape and patronage, writes David White

A conservative government takes over from a left-wing government after a general election. All a natural part of a functioning democracy, you might say. And it is, but in Spain it is worth bearing in mind that the last time this happened was in November, 1933.

The narrow victory this spring of Mr José María Aznar's centre-right Popular party completed a missing link in Spain's return to normal political life. The Socialists, under Mr Felipe González, had been installed for more than 13 years, initially against very weak opposition. The centrist party which governed before, in the initial phase of restored constitutional monarchy, instantly self-destructed and disappeared.

As a result of all this, Spain has only now, 20 years after emerging from dictatorship, reached the situation of having both a ruling party and a main opposition party with experience of government under a democratic system.

That other election - in 1933, and of unhappy memory - led to two years of general disintegration, three of civil war and 35 of General Franco. Spaniards, who until the end of this year will still be using coins with Franco's face on them, would like to think they have exercised that period. But, while Spain has become an immeasurably more open and international society since its "transition", all the perverse effects of those four decades of dictatorship cannot easily be

overcome in 20 years of democracy.

The scandal over the "dirty war" against Basque separatist exiles in France in the 1980s, which contributed to Mr González's electoral downfall, reflects one of those legacies: the fact that, while the Spanish military changed with a new generation of senior officers, the existing security apparatus was largely allowed to survive in the interior ministry, police and paramilitary civil guard. A continuing campaign of bombings and shootings by the Basque Eta group, begun in the late 1960s, can also be seen as a hangover from the past. The process of regional devolution, one of the most profound changes of recent years, still has many loose ends that need tying up.

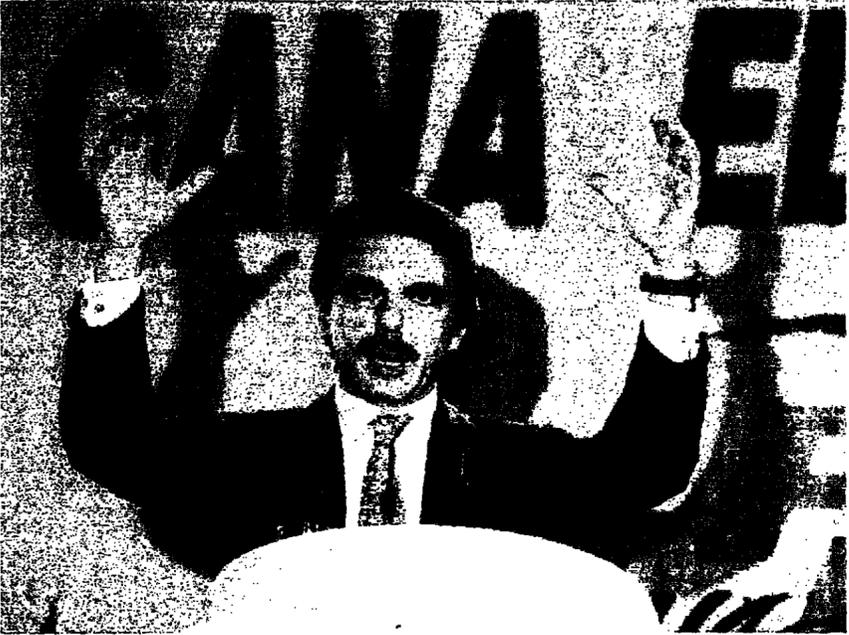
The workings of business, meanwhile, continue to be hampered by labour laws inherited from the Franco era. The legal red tape and high costs associated with redundancies originated in a system which gave workers job security in exchange for quietness, in a time before industrial restructuring, when unemployment was very low. They sit uneasily with a competitive investment environment and a jobless rate, according to the latest official survey, of 22.7 per cent.

The Instituto Nacional de Industria, a huge state holding

company set up in the 1940s, was finally abolished last year, but only in name. A number of state interests, such as the northern coal mines, appear not only permanently unviable, but also inviolable, even under a conservative administration. The concept of "strategic" economic interests, which in Spain can range from weapons to sugar, has survived. And, judging by the enthusiasm of the country's new leaders for placing their chums in plum jobs, so has the tradition of political patronage.

The Popular party was waiting for its turn in power with almost indecent impatience, feeling cheated by its failure to beat the Socialists three years earlier and embittered by Mr González's refusal to quit amid gathering evidence of high-level corruption. This time its planning was thwarted again, by a close result in the March 3 contest, which left it 20 seats short of a majority in congress, a bigger gap than Mr González had to make up in his last term.

The 43-year-old Mr Aznar, a slight man of austere demeanour, has tried to project an image of relaxed confidence as prime minister, adopting a jolly laugh not heard before in public. But the new government got off to a stumbling start, evidently unnerved by having been forced to strike deals with Catalan, Basque and



Prophet of the centre right: José María Aznar has emerged from the euphoria of his election victory to face tough policy questions. Sergio Perez/Reuters

Canary Island regionalists before taking office.

Promises of quick, decisive reforms were set back by a nine-week interregnum, during which Mr Rodrigo Rato, the new team's economy supremo, was kept busy persuading the powerful Catalans to lend their support in congress. It took a further month for the government to detail its first economic measures - in effect a mini-budget in two parts, a Ptas200bn (\$158bn) adjustment in public spending plans for this year, then a wide-ranging package combining deregulation with tax measures to encourage small investors and businesses.

The new government shares its predecessor's determination to try to qualify for the European single currency and be counted in the EU's "first division". More than 80 per cent of voters backed parties that unreservedly favour monetary union. But, because of its budget deficit and inflation levels, Spain is still an outsider in the single currency stakes.

Mr Aznar's team was counting on a surge of confidence and growth which would both create new jobs and drive up tax revenues. But its calculations have gone awry thanks to the downgrading of growth expectations in most of the EU. The most the government now expects from its stimulation measures is a modest recovery in the second half to achieve a 2.3 per cent growth rate for the year, below last year's 3 per cent. Although this would still

put Spain among the EU's fast-growing economies, there is little hope in the short term of making a significant dent in the unemployment rate, which is by far the EU's highest.

At the same time, the budget position leaves little room for generalised tax cuts before at least 1998. The government has stopped talking in specific terms about reducing income tax - after promising in its electoral programme to reduce the top rate from 56 to 40 per

cent - or cutting social security contributions.

If growth fails to pick up in the next few months, the government may have to go back to pruning current-year budget expenditure in the autumn to keep the deficit on course. This would coincide with a tough budget bill for next year.

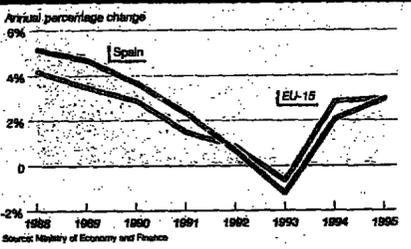
The 1997 budget is the big test Spain cannot fail in its application for the euro club, and at the same time the first big trial of its parliamentary alliance with the Catalan nationalists, enabling both sides to judge whether their agreement on economic policy and regional demands is working out.

The Aznar administration has so far been reluctant to take unpopular measures. The more radical free-marketisers in the Popular party have been effectively sidelined in the share-out of top jobs. Mr Rato, given full powers over economic strategy, is counting on being able to achieve a wide degree of consensus on pay and social policies. But the government's overtures to the

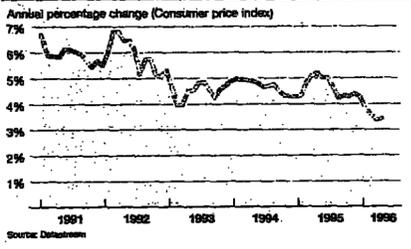
IN THIS SURVEY

- Privatisation: government sends conflicting signals
 - Telecoms: brakes are on
 - Industry: two banks battle for territory page 2
 - The economy: tough convergence targets ahead
 - Profile: Rodrigo Rato, economy minister page 3
 - Regions: a mosaic
 - Profile: Jordi Pujol, former president of Catalonia
 - Unions: public spending will be a battlefield page 4
 - Profile: Abel Matutes, tough-talking foreign minister
 - Profile: Esperanza Aguirre, education and culture minister page 5
 - New flamenco: no trills
 - Water: distribution is a political issue page 6
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GDP, real growth rates



Inflation



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2 SPAIN

Privatisation: by Tom Burns

Confused strategy

The government's approach to sell-offs is unclear and sometimes self-contradictory

The centre-right Popular party claims that it is the first government in Spain to have a coherent privatisation policy. The outgoing Socialists had sold off bits of public companies in a piecemeal fashion but in his investiture speech at the beginning of last month, Mr José María Aznar, the prime minister, specifically spoke about a strategy for disposals.

Since then, however, the government has delivered mixed signals. It has broadly adhered to the principle that the private sector is preferable to the public one, but there is confusion over what the disposals policy will eventually look like.

One idea that has recently surfaced is that there should be a clear distinction in any privatisation between the chief executives and senior managers of state-controlled companies and the actual owners of the state-owned equity that is to be sold off, in other words the government itself.

Popular party ministers appear to believe that during the Socialist period too much decision-making over privatisation was assumed by the chairman of companies making the disposals and that the government must assert its control.

Quite how this will work in practice has left the markets guessing - it appears that it will still be the chief executives who will be making presentations during roadshows - but one consequence has been the replacement of such highly respected chairmen as Repsol's Mr Oscar Panjuel and Telefonía's Mr Cándido Velázquez by friends of the prime minister and members of his cabinet.

In the circumstances, one of the best ideas to have been put forward has been the creation of a privatisation office. This was mooted last month and was encouraged by market participants because state-owned industrial assets are in some cases controlled by the finance ministry and in others by the industry ministry.

However there is less enthusiasm for such an umbrella

unit because it could be complicated and costly to set up. Officials say that even if there is to be no privatisation office there will be far closer co-ordination than in the past among all parties involved in the privatisation process.

A centralised unit for disposals would be highly useful because the government's priorities over what to sell first and when and how to sell it are very unclear.

Repsol is a case in point, for there is talk that part of the 10 per cent stake that the state owns in the oil, gas and chemicals conglomerate could be sold directly by Sepi, the industry ministry's agency which controls the Repsol equity, to

Government's priorities over the order and timing of sales are unclear

its two core domestic shareholders, Banco Bilbao Vizcaya (BBV) and La Caixa, the Barcelona-based savings bank.

Sepi last tapped the markets with a Repsol disposal in February and a block sale of its equity in the conglomerate would circumvent the 12 month lock-out period that followed its global offering last February.

Endesa, the extremely profitable electricity generator and distributor which is 66 per cent state-owned, is a strong candidate for further privatisation. But there are arguments over whether Endesa should first consolidate its already dominant position in the domestic electricity sector through further acquisitions or whether, in contrast, it could unbundle some of its assets before approaching the markets.

As at Repsol, Endesa's core shareholders, in this case Banco Santander, Banco Central Hispano (BCH) and Argenta, the state-controlled banking group, could be offered the opportunity by Sepi to raise their shareholding in the company.

The finance ministry's agency, Patrimonio del Estado, sold off 25 per cent of its equity in Argenta in March. Since

that disposal carried a six-month lock-out period, the remaining 25 per cent that Patrimonio owns in the banking group could be offered to the markets in the fourth quarter of the year.

However, the full privatisation of the fourth and final jewel in the state's corporate crown, the telecoms operator Telefonía, which is 20 per cent owned by Patrimonio following the sale of 12 per cent of the government-held equity last October, is more complicated.

This is in part because of the glut of European telecoms paper, notably the huge IPO planned by Germany's national operator that will be offered to the market over the coming months, and in part because the government is in the midst of deregulating the domestic telecommunications sector and has promised legislation creating a new framework for the industry at the end of the year.

A privatisation office would help to create a strategy for public sector companies which are either not known to the markets because they have yet to start the privatisation process, or which are barely profitable. Co-ordination and in certain cases considerable corporate skills will be required to find industrial buyers for state-owned properties such as the aluminium producer Inesap and the national airlines Iberia.

The big loss-makers, principally the state-owned companies in the coal, shipbuilding and defence industries, present a different set of challenges. Officially the government, fearing problems with the unions, shies away from any suggestion that they should be wound up completely although this has been seriously argued by some senior officials and also by the Popular party's main parliamentary ally, the Catalan nationalist party.

There is nonetheless a certain amount of bullishness that new management, replacing the executives appointed by the socialist party, will go a long way towards stemming losses. These appointments have still to be announced and the consensus is that expectations of a recovery in these industries amount to wishful thinking.

Telecommunications: by Tom Burns

Caution leaves the market on hold

The Popular party is prepared to delay an ambitious timetable for liberalisation

The Popular party government has struck a note of caution and realism as it approaches the inevitably complex liberalisation of the domestic telecommunications sector. The European Union has allowed Spain a moratorium on the introduction of full deregulation and Mr Rafael Arias Salgado, development minister, is prepared to use up the extra time.

The policy is in contrast to the one adopted by the previous Socialist party government and the change suggests a better understanding of the constraints of the domestic economy. By exercising the moratorium option Mr Arias Salgado hopes that Spanish industrial groups will be better prepared to meet the challenge of the open market and to profit from the opportunities that will be ushered in by liberalisation.

The previous government demonstrated less pragmatism. Although it had originally negotiated a five-year transition phase for deregulation until 2003, it unilaterally decided to waive it with a surprise announcement two years ago that it intended to meet the EU's 1998 date for full liberalisation.

The decision, which was typical of the Socialist party's European zeal, had clear political overtones. By rejecting the slower route to liberalisation, the previous government was signalling that Spain was a core EU member, on a level with France and Germany, and was not to be grouped with the weaker and peripheral EU economies such as Greece and Portugal, which had also obtained a five-year delay for implementing deregulation.

Mr Felipe González, the former prime minister, called the fast-track deregulation package which is unveiled in 1994 "a leap forward of historic proportions". Mr Arias Salgado, who dislikes hyperbole, used more measured language earlier this month when he

announced the revised schedule and package: "We will go neither faster nor further than the average among our European partners."

The new minister clearly does not feel bound by the previous government's public commitment to the 1998 deregulation date and he appears to be altogether more relaxed about EU deadlines. Mr Arias Salgado stressed that Spain's exemption until 2003 was still written into the EU's liberalisation directive for the telecommunications sector and he said that Spain would use the extension "prudently" and "reasonably".

In fact Spain is by no means an EU laggard over telecoms liberalisation. The national operator Telefonía, although heavily controlled by the government (one of the first decisions of the new administration was to appoint Mr Juan Villalonga - a close friend of prime minister Mr José María Aznar - as chairman of Telefonía) is partially privatised. Specific business niches in the telecoms sector, including mobile telephones and data transmissions, have already been deregulated.

Under the new government's guidelines the timing for full liberalisation, which will include the deregulation of the twin jewels of the industry - basic voice telephony and the cable sector - appears to have altered. Mr Arias Salgado indicated that local cable operators, which will be providing basic telephony to users, are unlikely to be delivering services until after the 1998 deadline.

Otherwise Spain's telecoms package remains essentially the same. The present government, like the previous one, will as far as it is able assist the creation of Spanish tele-

communications groups and will use Retevisión, the state-owned signal transmission company, as the chief vehicle to break the monopoly for basic voice telephony that is exercised by Telefonía.

The licences for cable operators will be awarded after 1998 and it is they who will be using the Retevisión network to provide the local basic telephony service.

The plan is that Retevisión will first create a telephony company and that the govern-

ment will then sell 51 per cent of this company's capital, via a public listing, to a consortium formed primarily by domestic capital. Mr Arias Salgado expects that the monopoly will in principle exist as early as the beginning of next year, which is when Retevisión will be in a position to offer basic telephony services.

Subsequently the government will reduce, probably through a public offering, state ownership in Retevisión to 20 per cent, which is the government's current ownership of Telefonía. Eventually it will fully privatise both Retevisión and Telefonía. The previous government had said that the state would have only a token presence in Telefonía by 1998 but Mr Arias Salgado does not want to be drawn over firm timetables for the planned disposals.

One novelty that will be

introduced by the new guidelines is the creation of the Telecommunications Market Commission, a regulatory body, to oversee competition. Under the previous arrangement the deregulation process would have been directly controlled by the administration.

Although the members of the commission will be directly appointed by the government, Mr Arias Salgado's development ministry is at pains to stress that they will be independent and will serve a four-year term. One of the commission's principle tasks will be to award licences to cable operators.

Another novelty is that Mr Arias Salgado has specifically excluded existing Telefonía institutional shareholders from investing in the second operator. This ban had not been spelt out before and it excludes Banco Bilbao Vizcaya, Argenta and La Caixa, which between them control nearly 15 per cent of Telefonía.

The ban effectively means that Retevisión's main financial partners will be the rival banks, Banco Santander and

Banco Central Hispano, which lead the consortium that owns Airtel, the second holder of a mobile telephony licence after Telefonía.

The carve-up of the telecommunications business is obviously designed to involve as much domestic capital as possible. By delaying liberalisation the new government is clearly determined that home-side companies should be active in the industry.

Ironically the bid to foster domestic business through intervention and protection could be prejudicial to Telefonía, which is Spain's biggest employer. This is because Telefonía has enthusiastically joined the Unisource alliance, formed by the national operators of Holland, Sweden and Switzerland, that aims to provide global telecoms services.

However Telefonía's 25-per cent stake in the Unisource venture is to a great extent dependent on the 1998 deregulation timetable, because the European Commission could block the Spanish operator's participation if it is viewed as continuing to exert monopoly privileges at home.

Finance and industry: by Tom Burns

Two duellists take guard

Banco Santander and BBV are building rival shareholding networks

The traditional partnership between banks and industry in Spain, which for a time began to look obsolete, is more firmly cemented than ever. Recently a more intriguing pattern has set in: the big domestic financial houses have split into two camps as they position themselves to finance industry.

Banco Santander has provided the most interesting example of the new trend, partly because it has become the largest of the domestic banks and partly because it had for several years emphasised its preference for banking activities by selling off its industrial assets.

In April Santander surprised the markets by spending \$400m to acquire 3 per cent of Endesa, the dominant and highly profitable electricity generator and distributor, which is 66 per cent state-owned. Analysts say Santander's renewed enthusiasm for industrial investment emerged late in 1995 when it signed a wide-ranging \$600m alliance with British Telecom.

If Santander is in one camp then Banco Bilbao Vizcaya, its chief rival in domestic banking, is in another. BBV, which already had a well-established position in the electricity sector through its strong shareholding in Iberdrola, the second-ranked and fully privately-owned utility, increased its stake in Repsol, the energy conglomerate, a month after Santander's move on Endesa.

In contrast to Santander, BBV has always kept several irons in Spain's industrial fire. What BBV is doing now, however, is to increase its industrial presence. Its 7 per cent stake in Repsol, which it has built up from its original 5 per cent, is accompanied by an increasing presence in Telefonía, the national telecoms oper-

ator which is 20 per cent government-owned.

Neither of the two big banking groups lacks allies as they square up to each other with their rival industrial assets. Santander is joined by Banco Central Hispano in both Endesa and Airtel, the operator of the second mobile telephone licence after Telefonía. BBV is joined by La Caixa, a highly liquid institution that is one of Europe's biggest savings banks, in both Repsol and Telefonía.

Like BBV, La Caixa, which is based in Barcelona, has always had industrial assets on its balance sheet. It has traditionally been a significant institutional shareholder in the telecoms operator and owns 5 per cent of its stock, compared with BBV's 1 per cent.

La Caixa also has a strong connection with Repsol: the two are the dominant shareholders of Gas Natural, which was created by a merger between Catalana de Gas, controlled by La Caixa, and Gas Madrid, a Repsol subsidiary. But La Caixa's decision to join BBV as a leading shareholder in Repsol - it paid \$20m for 3 per cent of the energy group in April and then acquired a further 2 per cent in May - suggested ambitions to finance industry on a national scale.

In the opposing camp, Santander was put on the trail that led to its Endesa stock acquisition by BCH, which in July last year unveiled an ambitious agreement with the electrical utility to swap assets and jointly pursue industrial investments. Unlike BCE, which controls about 1 per cent of Endesa, Santander has a strong balance sheet, which has allowed it to position itself far more strongly than BCH in Endesa's shareholding.

There is an obvious symmetry to the industrial strategies of the two camps. The big investments revolve around what the rival groups perceive to be the most profitable, as well as most capital-intensive.

Continued on facing page

Table with 4 columns: Indicator, 1995, 1996, 1997, 1998. Includes sections for Key Facts, GDP, Trade, and Main trading partners.

SPAIN

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4 SPAIN

Regions: by David White

A patchwork of identities

Responsibilities - ranging from finance to education - differ case by case

In less than 20 years Spain has moved from being one of Europe's most centralised countries to one of the most decentralised.

But the devolution process is still incomplete. Tinkering with the powers of regional governments and the means of allocating funds to them has become a disconcertingly permanent feature of the political scene. It remains uncertain how far the process is going, how quickly, or how evenly.

The regional question left to the fore after the March general elections. The delay in forming a government - a record nine weeks - was due to the protracted negotiations the victorious Popular party had to hold with Catalan, Basque and Canary island parties to gain a parliamentary majority.

New funding arrangements, agreed in outline with the Catalans and now under discussion with leaders of other regions, are set to lead to a system in which rates of income tax may vary from one part of the country to another.

The 17 regions set up between 1979 and 1983, with their own elected parliaments and presidents, now account for a quarter of the country's public spending and public sector employment. At the same time, the "autonomous communities" have built up debts of almost Ptas4,000bn (\$31bn).

The impulse for devolution came from the resurgence of regional-nationalist movements in Catalonia and the Basque country, repressed during the Franco regime.

The Catalans had gained home rule during the pre-civil war republic, and the Basques in 1936 after the conflict had already started. Extending devolution to the rest of the country was an effort to dilute the impact of these strongly-rooted movements and mollify a restive military establishment, alarmed by any threat to national unity. A number of the new regions had never shown any interest in self-government, and in some cases

were artificial creations.

The Basque country and Catalonia came first, along with Galicia in the north-west, which had been on its way to home rule when the civil war intervened, and Andalusia.

Among the other 13, Valencia, the Canaries and Navarre became assimilated with the first group as "fast track" regions, with the other 10 taking a "slow track".

What this means in practice is that the regions' responsibilities differ case by case. Two, Navarre and the Basque country, have special tax arrangements in recognition of ancient privileges. Instead of receiving funds from Madrid they collect taxes themselves and pay part to the central government.

The Basque country and Catalonia, but no others, have their own police. Six, including the Basque-speaking part of Navarre, use and teach their own languages beside Spanish.

Four regions, the first to win autonomy statutes, can call their own elections, but the others hold theirs on the same set date every four years. Seven regions now have powers over both health and education, the services with the biggest budgets and staffs.

This is not the standard structure of a federal state. It is not a case of different units that have come together, but a unified state that, by returning to medieval precedents or resorting to new inventions, has divided itself up - and, moreover, in a non-symmetrical way.

The new system, to be phased in over two years while responsibility for schools and universities is devolved to all the regions, will not only double the share of income tax to 30 per cent but also give regional governments leeway to adjust the rates, tax brackets and deductions that apply to part of everybody's tax bill.

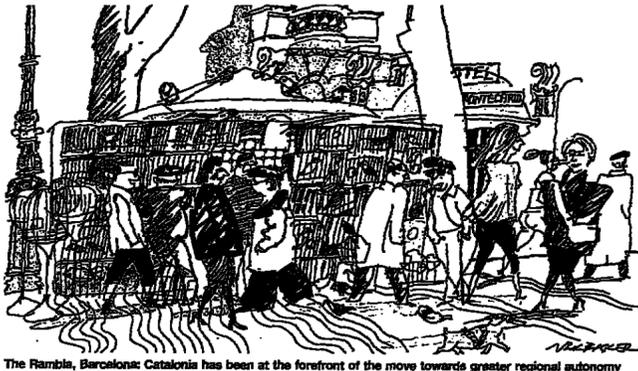
Mr Mariano Rajoy, public administration minister, says the increased tax share does

not automatically translate into more money for the regions, since they will receive correspondingly less in the form of other transfers.

The regions, however, are divided about the plan. Some of the poorer ones never accepted the previous tax-allocation scheme, on the grounds that richer regions would be better off. The Catalans argued back that they did not do better at all because of financial ceilings imposed under the system, and in fact received less overall per head than other regions, even though they produced more tax revenue. But the idea of a 30 per cent slice without limits faces strong opposition especially from the Socialist-controlled southern regions of Andalusia and Extremadura.

Many argue it is high time to rationalise the whole system once and for all. The PP's electoral programme put the case for a more uniform structure, making allowance only for the special circumstances that had to do with islands, linguistic differences, or historical rights. But it had to change its tune when the narrow election result forced it to court support from the Catalan nationalists.

It is not just that regions like Catalonia and the Basque country want a greater degree of home rule, but that the dominant regionalist parties in those two regions see autonomy as a dynamic process, and do not want its limits defined.



The Rambla, Barcelona: Catalonia has been at the forefront of the move towards greater regional autonomy

PROFILE

Jordi Pujol, president of Catalonia

Both canny and tenacious

In a contest for who ranks as Spain's canniest living politician, Mr Jordi Pujol, the Catalan president, would have only three rivals.

One, undoubtedly, would be Mr Felipe González, the 54-year-old former socialist prime minister whom Mr Pujol propped up in government for three years and then abandoned. Mr González staged a remarkable resurrection in the campaign for the March election, losing more narrowly than anyone expected. Then there is the tireless Mr Manuel Fraga, 73, a monument of brain-power and staying-power: a minister under Franco, he is now a convert to regionalism and president of his home region of Galicia. And there is Mr Xabier Arzalluz, the 68-year-old former Jesuit at the head of the Basque Nationalist party, exponent of a fine balancing act between the rhetoric of Basque nationhood and pure realpolitik. But of this select group it is Mr Pujol who today exerts the greatest power.

Just turned 66, he is the country's longest-lasting elected leader. Elected five times in a row as president of the Generalitat, Catalonia's autonomous government, he is expected to stand again

next time if his chirpy fitness continues to hold up.

The 16 seats his party coalition holds in the Madrid parliament make it the arbiter of national politics, able to sustain or bring down the government. But at the same time, the Catalan coalition is an uneasy household of two distinct factions. Mr Pujol has difficulty justifying to some of his own Catalan nationalist supporters his decision to switch horses at national level from the Socialist party to the Popular party. Unlike the PP and its previous hostile tactics, aimed especially against policies promoting the Catalan language, remains high.

Having lost his outright majority in the Catalan parliament last year, Mr Pujol is able to work an exchange of favours with the PP, with each prepared to support the other's budget plans. But he has insisted on keeping a certain distance from the Madrid government, not accepting ministerial posts and watching closely to ensure the PP fulfils all its promises to the Catalans. "We like to keep a certain freedom of movement and opinion," he says.

A polyglot, competent in English, French, Italian and German as well as Catalan and Spanish, he has spent much effort projecting Catalonia's image abroad,

ignoring the irritation this sometimes causes in Madrid. Qualified as a doctor but never having practised, Mr Pujol spent two years in prison under Franco and went on to found his own party, Convergència Democràtica, towards the end of the dictatorship, with a solid middle-class base and a range of support from conservative to centre-left. He was the driving force behind Banca Catalana, a regional bank which collapsed in 1982, after he had sold his shares and left the board.

His victory in the first elections to the restored Generalitat in 1980 was something of a surprise, but he has since made the post his own. Mr Josep Tarradellas, the charismatic figure who had held the post in exile and returned to Barcelona in 1977, resented what he saw as Mr Pujol's "unbounded ambition". The criticism that Mr Pujol "believes himself in possession of all the truth when it comes to Catalonia" is shared by many of his enemies. To an extent that no-one else has done in any other Spanish region, he has identified Catalonia with his own diminutive, sprightly figure.



Pujol: a formidable parliamentary wheeler-dealer

David White

Unions by Tom Burns

In search of social dialogue

Employers and unions are drawing up battle lines over plans to reform welfare spending

Spain's Popular party has spent several months monitoring industrial relations in France and Germany. Mr José María Aznar was keenly interested in how the French government stood up to union pressure and he is closely watching the German government's attempts to whittle down social expenditure.

There is a striking affinity between the Madrid government's agenda and those in Paris and Bonn. All three centre-right governments have singled out excessive public spending as the main barrier to meeting European monetary

union criteria. They share broadly the same policies on welfare cuts, deregulation initiatives and privatisations - and they face the same problem of how to sell the package to the unions.

Mr Aznar has started to engage the unions with a considerable amount of caution. He has promised to maintain the purchasing power of pensions, called for what he calls a "social dialogue" on all aspects of labour relations and encouraged meetings between employers and the main unions with the aim of increasing employment.

The government's low profile may be sensible in the short term but there is a widely held perception that the present calm on the industrial front will not continue much beyond the autumn. There will be much in the new government's

first budget, which will be unveiled at the beginning of October, that the unions will not like.

"We are shadow boxing at present," said a senior member of Comisiones Obreras (CCOO), the communist-leaning trade union which together with the mainstream socialist Unión General de Trabajadores (UGT) dominates organised labour in Spain. "It will be some time before we really start talking." It is already clear that neither the unions nor the CEOE, the employers association,

believe that there is much to be gained by talking to each other as Mr Aznar would like. Both sides know that the government will have to involve itself in everything that touches on employment guidelines and welfare benefits.

It is because of this that the CEOE and the unions are more concerned about delivering confrontational messages to the public in general and the government in particular. "The employers are calling for a

Continued on facing page

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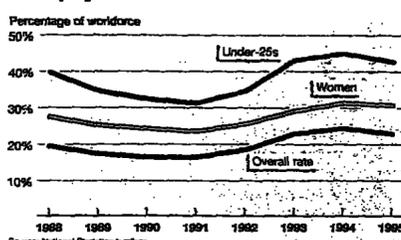
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PROFILE **Abel Matutes, foreign minister**

Unafraid of making head-on tackles

You would not say, at first sight, that Mr Abel Matutes was obviously a former athlete. But the new Spanish foreign minister's packed curriculum vitae includes a spell as a football player. While he was a student he turned out for Espanol, Barcelona's "other" first-division club, known these days by the more politically-acceptable Catalan spelling of Espanyol. Mr Matutes jokes that his time on the soccer field was the closest he ever got to the left wing.

A stalwart of Spanish conservatism through the various phases that led up to today's Popular party, Mr Matutes built up his own party base in Ibiza, where his family are the island's wealthiest businesspeople. At the beginning of the 1970s, during the Franco regime, he was briefly mayor of Ibiza, an episode that ended in a row with the air ministry over a Matutes hotel built next to the airport runway.

A senator from the first post-Franco elections in 1977

and subsequently a member of congress at the head of the list of candidates for the Balearic Islands, he had backing in business circles for taking over the conservative leadership. Instead he was dispatched by the socialist government in 1986 to be one of Spain's two commissioners in Brussels.

At the European Commission he held a series of jobs - credit and investment, small and medium-sized companies, Latin America and north-south relations, transport and energy - before the Popular party hauled him back to head its European Parliament campaign in 1994, which produced the party's first national-level election victory.

His credentials for becoming foreign minister were obvious, though as a former professor of public finance, with degrees in law and economics and a business background in tourism and banking, he could also have taken an economic post. Most EU diplomats are con-

tempt to find his familiar face in the Santa Cruz palace, home of the Spanish foreign ministry. One diplomat described him as "a pragmatic, deal-making politician rather than a visionary politician". The diplomat ascribes some of Mr Matutes' more outspoken recent com-

ments to the bravado required of an incoming conservative minister, expecting it will be a passing phase.

One place where Mr Matutes has gained instant notoriety is Gibraltar, when he stated that his "hand would not falter" in closing down Spain's border

with the British colony if the smuggling issue is not resolved. The last Spanish government to close the border was Franco's. It stayed shut for 18 years until it was reopened in 1985 in the hope of improving relations.

Mr Matutes was also tough on US policy towards Cuba, once part of Spain's colonial empire, describing the reinforcement of sanctions under the Helms-Burton law as "unacceptable in every aspect". This objection was watered down soon after by Mr José María Aznar, the prime minister, in a meeting with Mr Al Gore, the US vice-president. But Mr Matutes came back warning that Spain would retaliate against any US measures damaging its interests, earning a sarcastic photograph from the ultra-conservative newspaper ABC: "US government trembles in the face of Matutes' threats."

David White



Matutes: a pragmatic deal-maker rather than a political visionary

PROFILE **Esperanza Aguirre, education and culture minister**

The workaholic icon

Incoming prime ministers in Spain tend to reserve the ministries of education and of culture for the high-flyers in their team because domestic public opinion considers the two posts to be emblematic of a new government.

tree-pruning practices that were championed by Madrid's corps of city gardeners.

Mr Aznar clearly liked her style. He co-opted her onto the Popular party's national executive earlier this year and ensured that she ran for a Madrid senate seat in the elections. The voters liked her, too: her poll figures were higher than those of anyone else in Spain.

Ms Aguirre, who describes herself as a liberal, is a conviction politician and is arguably the only true free-marketeer in the cabinet. She says that Lady Thatcher is her political role model and always keeps a copy of her heroine's *The Downing Street Years* within reach.

No sooner had she taken over at the education and culture ministries than she was characteristically making headlines. She spoke up for private schools, which in Spain means Catholic church-run schools, and she said she did not believe in funding the arts with public money.

Her remarks on schooling were couched in the language of "choice" - parents should be allowed to choose where and how they wanted their children educated - and flew in the face of all that the previous Socialist government had preached during the 1980s.

One report had her first opening an exhibition devoted to Latin America and then ordering its closure a few days later in a fit of fury; she had learnt that it included workshops which lauded the Cuban revolution and castigated multinational firms clearing swathes of the Amazon rain forest.

Environmentalists were never quite sure of what to make of her. She backed an incinerator that nobody in its vicinity wanted and also a tree-felling exercise in the woodlands of the Casa de Campo park. But she fought off developers who wanted to run a highway through a 16th century garden that was known only to specialists and she stopped the excessive

The socialists, who raised the school-leaving age to 16, were financially generous but highly dirigiste and interventionist over education. They significantly raised the education ministry's budget, routed the new revenues principally to the state schooling system and increased the education ministry's control over grant-aided, church-run schools.

In contrast, Ms Aguirre has accepted cuts in what had been held to be the education ministry's sacrosanct budget. Mr Aznar's government is determined to cut the budget deficit and Ms Aguirre has shown herself willing (too willing, say her critics) to rein in spending by her department.

She has also indicated that she is ready to increase grants to the private sector schools. If there are waiting lists for church-run schools because more parents want their children to be educated at them and if there is less demand for places in the state schooling system, then it is obvious that the first set of establishments, rather than the second, should have first call on the funds available, she says.

These policy preferences could, sooner rather than later, put Ms Aguirre on a collision course with the state schooling system's teachers. In the culture ministry, Ms Aguirre's liberal and free market ideas - subsidised art is usually bad art - are no less controversial, for cultural subsidies had become something of a growth industry under the socialists. Her main challenge will be gradually to shift spending on the arts from the public to the private sector by means of a far more generous fiscal policy of private foundations.

Those who know Ms Aguirre well say that her gut instinct is that the best cultural policy a government can adopt is not to have one at all.



Aguirre: Thatcher a role model

Tom Burns

Two-tier job market

Continued from facing page

meaningful reduction in firing costs and CCOO and UGT have signalled that they will defend welfare spending.

Even before the union-employer talks have started properly, each side is accusing the other of seeking to wreck the discussions in order to force the government to step in. Seasoned observers of Spain's industrial relations say that although both sides might agree that entire chapters of the existing labour legislation need thorough reform they will be incapable of finding common ground over what changes should be introduced.

There is consensus, for example, over the fact that an unsatisfactory, dual labour market has emerged. Some 35 per cent of the labour force is employed on the basis of short-term, and in practice non-renewable, contracts while

other employees have highly protected job security.

There is no agreement, however, on how to alter this duality: the employers want to extend flexible employment practices which incur minimal dismissal costs, but unions want to stop the trend.

The result of such apparently irreconcilable positions is that the government, in addition to being drawn into the talks sooner than it might wish, could find itself with little room for manoeuvre.

The issue of firing costs for fixed-contract employees, which the employers have raised, is highly sensitive and was the most controversial aspect of a reform introduced by the previous, socialist government in 1994. The unions called the reform draconian and the employers, who at the time said the reform was too timid, now say that it is a dead letter.

As far as the CEOE is concerned, the litmus test of the 1994 legislation is the distinction it makes between unfair dismissals and what it calls "objective" compulsory redundancies that are made necessary because of technological innovation or relocation. Employers frequently say they are deterred from hiring because of the firing costs, but their overriding concern, which is not publicly aired, is that dismissal costs prevent them from raising productivity by dismissing ageing, inefficient employees who command high wages.

The 1994 legislation maintains high dismissal costs for employees who are arbitrarily sacked. Employees who are unfairly dismissed are entitled to a severance package amounting to 45 days' pay for every year worked, up to maximum equal to 40 months' wages. In contrast the sever-

ance package for an "objective" termination of a work contract is fixed at 20 days' pay per year worked, up to a maximum of 12 months.

The catch, according to employers, is that the decision about what is unfair and what is "objective" is made by judges at a labour court when an employee appeals.

A recent study of dismissed sentences at 36 labour courts found that in 85 per cent of the severances that were considered "objective" by the employer the judges ruled that the redundancies constituted unfair dismissals. "The reform of the labour legislation simply does not work in this key aspect," says Mr Joan Rosell, president of the Catalan employers federation which sponsored the report.

Just as the employers have drawn their battle line over firing, the unions have drawn theirs over welfare benefits. They point out that in Spain there is no question of trying to cut back on the sort of paid holidays in health spas that German workers might receive

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6 SPAIN

New flamencos: by Kathy Karmen

Out of tune with tradition

Bongo drums and bare-chested stars have attracted a new audience to flamenco music

The polka dots and flamenco are gone. Forget about the castanets. And the lone guitar now has company on stage. Take "Gypsy Passion", the latest show by rising star Joaquín Cortés. Women in plain black dance to the wall of flutes, violins and the beat of bongos. The stylised contortions of bare-chested Cortés even get the grannies in the audience leaping to their feet.

Flamenco purists grumble but the sounds and look have opened up a new era in the music. In recent years young flamenco musicians have been bridging the gap between traditional flamenco and other music forms - salsa, blues, jazz and pop/rock. An assortment of instruments, ranging from the Peruvian cajón or box-drum to violins, flutes, blues guitars and even the piano, has invaded the scene. Cortés admits to having danced a "seguirya" - a basic flamenco song - to a grand piano in the recording "10 de Pao" a piano, saxophone, flute, double bass and percussion reinterpret 10 compositions by master guitarist Paco de Lucía. It is "flamenco fusion" at its best - though few would have thought a piano could sit in for the flamenco guitar.

"Experiments aside, flamenco will always be based on the guitar," says flamenco critic Joaquín Albaladejo. The guitar, he says, has evolved more than anything else because of Paco de Lucía's innovations. De Lucía, an extraordinarily gifted and precocious guitarist, himself out-grew traditional forms and techniques of playing. This is a result of his mastering flamenco's strict canons at too young an age, sigh the purists with some misgivings: one gets bored and starts messing with bossa nova and such. By the early 1970s de

Lucía, who is now 48, was incorporating bongos and a bass guitar to enhance rhythm.

Persuasive Latin American rhythms are not entirely new to flamenco. The connection with Spain's new world colonies left its mark a century ago with a form of flamenco called *de ida y vuelta* or "there and back here" song. Afro-Cuban rhythms such as the rumba gave a new twist to flamenco's lighter forms. Compared with a solemn bit of chair-binding *cante jondo* (deep song), a burst of gypsy rumba comes on like an attack of ants in the pants. The French group Gypsy Kings has taken the rumba to its ultimate commercial success with music made to get the dead going. The group's Andalusian cousins claim more subtle variations.

Come or flamenco song was revolutionised by the phrasing and personality of the Córdoba-born singer Camarón de la Isla (Little Shrimp of the Isle). Camarón, a blond, flamenco version of James Dean, moved a whole generation with his fantastic *rajo* voice - a hoarse quality caused as much by his gypsy origins as by cigarettes. An idol at home and admired abroad by the likes of Mick Jagger and Leonard Cohen, Camarón died in 1991, aged 41, of lung cancer.

In the wake of such heavyweights, young flamenco talents do not always have an easy time finding a voice of their own. Sound-alikes abound, but imitators are raising the essence of flamenco, fret the critics. Few have the ability of Camarón or de Lucía to revert to traditional forms at will.

For some, having it in the blood is as good as having it in the fingertips. The offspring of various flamenco dynasties have simply opted to do their own thing. Groups such as Ketama or Pata Negra have broken new ground by mixing their flamenco base with salsa, blues and rock.

Spanish jazz musicians have also joined in, realising that flamenco is not only a source



In the flesh: Joaquín Cortés has melded ballet and flamenco traditions

of untapped riches but also Spain's most exportable cultural product. The result of all this is uneven. Rock music, for example, is a rhythmically more limited and less melodic partner. As flamenco evolves, the debate is about where to draw the line.

Some flamenco artists remain hostile to what they see as pure commercialism. There is also unease over excess technical perfection detracting from essence. Virtuoso *zapateado*, or noisy footwork of the clockwork kind, can drown out the subtlety of dance movement. Older artists are also cautious about the borrowing. One veteran dancer compares flamenco with clay: "You can make a thousand marvellous figures with it, without having to use other materials."

But the buzzword among young artists is *mestizaje* - the word for racial mixing, used here to mean the blending of different cultural currents.

Cortés, 27, a former ballet star who went back to his gypsy origins to take up flamenco, is one of several such cultural hybrids. The result is a ballet flamenco where the two dance forms fuse or tempt one another like two street fighters, or blend together to a jazz trumpet. With his fluid movements, Cortés takes some of the strutting out of flamenco.

The critics and the public may at times be sceptical, but Cortés has undoubtedly freshened up the rigid as well as macho world of flamenco.

He and a bevy of other flamenco stars appear in *Flamenco*, the new film by Spanish director Carlos Saura in which the classic and the new have their say in a feast of song, dance and guitar.

Paradoxically, the mixing of cultural currents goes along with a strong emphasis on ethnic origins. On stage, Andalusian gypsy performers fate their history and cultural specificity. Though non-gypsy artists such as Paco de Lucía have always thrived, flamenco owes its survival to the gypsies and their oral tradition. The closed world of flamenco has opened up, especially in Andalusia where gypsies have moved to the cities and become more integrated, and it has gained a new following.

The debate about new flamenco is bound to continue. Will a packed stadium hurt the essence of flamenco? As society evolves, will an art form preserved until now by a marginalised people lose its roots? Does flamenco risk being absorbed into "world music"?

One happy outcome of all the experimentation is that many young adepts who are drawn to the new sounds turn to traditional flamenco for more. And there is enough young talent around to satisfy the demand for the genuine.

Waters: by David White

Danger hides in the depths

Delicate political issues surround the distribution of the newly-replenished resource

Out to the west of Salamanca, in wild, impassable, forgotten country, Spain's biggest hydroelectric power station sits in a deep ravine of the Duero river, with a 140-metre-high dam reaching across to Portugal on the other side. A bit further downriver the Duero, or Douro to the Portuguese, stops struggling and turns to take the shortest route to the Atlantic at Oporto.

On this frontier stretch, the private-sector Iberdrola company generates a quarter of Spain's hydro power. The dams built on the river and its tributaries also serve to irrigate farmland along the basin, while areas of which would otherwise have been abandoned.

These days the Duero reservoirs are 90 per cent full. But last November, they were down to 36 per cent of capacity. In the river basins of southern Spain average levels were at 10 per cent or less.

Good rainfall is important in Spain. It pushes down food and electricity prices, brings recovery to the farm sector (expected to contribute about half a point to the official forecast of 2.3 per cent economic growth this year), and improves people's mood and outlook in much of the country.

The rains of the past few months put an end to five years of drought. People in Seville, subjected to cuts of 10 hours a day last November, have been able to take showers again at night. About one in four Spaniards was affected by restrictions. Now, water that was desperately needed last year is being allowed to spill down into the sea. At the main Madrid reservoir, the debate has been about whether the level is too high.

The dry cycle, the longest for a century and all the worse for increased demand, prompted a series of emergency investment projects, makeshift schemes to transport supplies in ships, tension with neighbouring Portugal and a tug-of-war between different

regions within Spain.

Against protests from local farmers, extra supplies were pumped down to the arid south-east through the network of canals and tunnels that links the region with the giant reservoirs at the headwaters of the Tagus, east of Madrid - but too late to save many new fruit plantations. Overall, some 6m hectares of farmland were reckoned to have been seriously damaged. Crops such as rice, cotton and olives were badly hit.

"The problem in Spain is not the quantity of water, but having water where it is needed," says Mr Benigno Blanco, appointed to the new job of state secretary for water and coasts at the newly-independent environment ministry.

An overall National Hydrological Plan for harnessing water resources, hitherto debated between the wet north and the dry south, was foreseen under a 1985 Water Law. The last Socialist government produced a first draft three years ago. Investments were envisaged totalling Ptas.5,000bn over 20 years, on projects ranging from new reservoirs to flood defences, and including Ptas750m in new connections to transfer water from one river basin to another, but the plan never went through parliament. Mr Blanco is now reworking it.

The centre-right government is committed to bringing in a national plan as a priority task but makes clear that it intends to undertake a thorough revision. The target date for having a new plan in force is mid-1998.

Some 80 per cent of water used in Spain goes into irrigated farming, with households consuming 12 per cent and industry the remainder. Mr Blanco says the aim is "to put our feet on the ground for the short and medium term," placing less emphasis on ambitious new works projects.

Any plans for diverting river water from the Duero or the Tagus touch a sensitive nerve in Portugal, where both rivers end up. But the biggest problem lies further south with the Guadiana, a particularly irregular river, running from Spain along the border, into Portugal and then back to form the southernmost stretch of the frontier.

The Socialist's scheme was held up on procedural grounds, since it appeared to override the country's river basin confederations, in which responsibility for water management is vested. The nine main confederations - bodies originally set up in a pioneering initiative in the 1920s - come under the control of Mr Blanco's department.

He says the argument over whose plans come first has become obsolete, since the confederations' proposals are now

Any plans to divert river water from the Duero or the Tagus could anger Portugal, where both rivers end

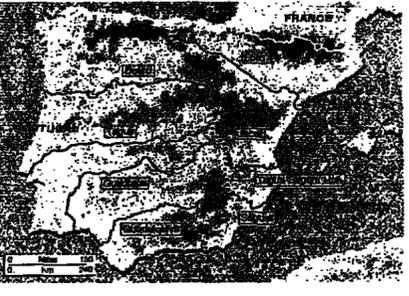
mostly complete, awaiting cabinet approval. The aim is to combine these with two pieces of legislation - a new hydrological plan and a national irrigation plan, covering the sector that is overwhelmingly the main user.

Some 80 per cent of water used in Spain goes into irrigated farming, with households consuming 12 per cent and industry the remainder.

Mr Blanco says the aim is "to put our feet on the ground for the short and medium term," placing less emphasis on ambitious new works projects.

Any plans for diverting river water from the Duero or the Tagus touch a sensitive nerve in Portugal, where both rivers end up. But the biggest problem lies further south with the Guadiana, a particularly irregular river, running from Spain along the border, into Portugal and then back to form the southernmost stretch of the frontier.

Portugal's revival of an old plan to build a big dam at Alqueva, with the aim of boosting a depressed farming region, raises questions on the Spanish side about the scale of the project and its effect on the environment.



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Pta. 5,500,000,000 Project Financing

Lead Arranger

June 1996

Komunističeski

Komunističeski

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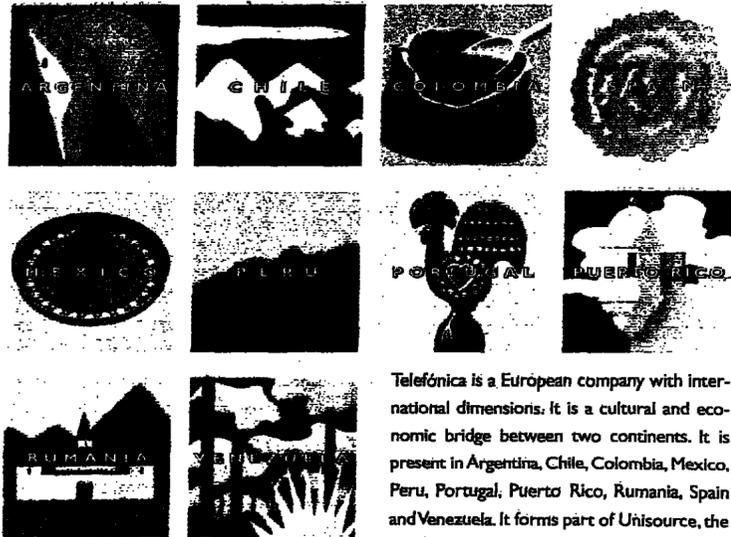
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Banking and finance by John McManus

Profits and pressures

Although part of the Irish success story, banks and the IFSC face uncertain times

It has been a good year so far for the Irish banks with the two largest, Allied Irish Bank and Bank of Ireland, reporting record profits. However, both tempered the good news with warnings about the pressures facing them in the increasingly competitive domestic retail market.

Bank of Ireland reported pre-tax profits of £370m in 1995 and Allied Irish Bank £372m. Both institutions derived more than half their profits from domestic retail banking despite having expanded internationally since the 1980s. But, according to a banking study by the Dublin stockbroker, NCB, margins in the home market will be increasingly squeezed over the next few years. The main reason is greater rivalry between banks and building societies in the mortgage and deposit markets.

NCB, however, is still predicting that bank and building society operating profits will grow by up to 8 per cent over the next two years. Any reduction in margins should be compensated for by increased volume, particularly in mortgages, as the Irish economy continues to perform well. The fact that banks and building societies are addressing the issue of their cost bases - traditionally higher than those of their British counterparts - should also help.

The profitability of their domestic operations has allowed AIB and Bank of Ireland to fund ambitious overseas expansion plans. But results have been mixed.

This year saw the implementation of a significant shift in Bank of Ireland's international strategy. The bank has now merged its US arm, a big loss maker in the early 1990s, with the American operations of Royal Bank of Scotland and is targeting the British market for expansion. Earlier this year it announced an agreement to acquire the Bristol and West building society for £200m.

Bank of Ireland's slightly larger rival, Allied Irish Bank, remains committed to the US, where it has fared somewhat better. It plans to grow both organically and by acquisitions and has the goal of developing its current \$11bn US operation, First Maryland Bancorp, into one with assets of \$20bn by the end of the decade.

In the domestic market, the

two banks compete with their smaller foreign-owned rivals, which include National Westminster's Irish subsidiary, Ulster Bank, and National Irish Bank, which is owned by National Australia Bank. However, the keenest competition in recent years has been provided by the building societies and former building societies. The country's largest mortgage lender, the Irish Permanent, converted to plc status and joined the stock market in October 1994. Along with the big building societies, Irish Nationwide, First National and the EBS, the Irish Permanent is now offering full banking services. The First National Building Society is expected to announce its plans to demutualise and seek a stock exchange listing later this year.

Despite increasing rivalry,

Competition from credit unions will soon increase

the banks would appear to be holding their own in the mortgage and deposit markets. They have 41 per cent of the mortgage market, compared with 38 per cent in 1990, according to NCB.

The building societies, meanwhile, have lost ground in the deposit sector, controlling 20 per cent of the market overall, but seeing their share of new deposits fall to 10 per cent.

Strong competitive forces in the market for smaller deposits have been the Irish post office, An Post, and Ireland's credit union movement. Along with the National Treasury Management Agency, which manages Ireland's £20bn national debt, An Post offers a range of very attractive tax-free schemes for small savers.

The participation of the small Democratic Left party in the coalition government has been a boon for the small but growing credit union movement. The party has pushed hard for the Credit Union Bill, which is due to be enacted later this year. The credit unions, which have assets of £2bn and more than 1.8m members, will be able to offer a much wider range of services, including current accounts, and will come under the supervision of the Central Bank.

The Democratic Left's part in the ruling coalition has not been such good news for the Irish Trustees Savings Bank. The TSB has been courted for the past three years by

both Ulster Bank and National Australia bank, which wants it to merge with National Irish Bank. The trustees of the bank have shown a clear preference for National Australia Bank, which bid £220m in mid-1994 to top Ulster Bank's £120m. However, the Labour party, the other partner in the three-way coalition with Fine Gael, is constrained by an election manifesto promise to create a "third banking force" through the merger of the TSB with the two state-owned banks, ICC and ACC. The managements of all three banks are opposed to the plan.

Although Labour could quietly let its third-banking-force proposal fall by the wayside, progress on the sale has effectively ground to a halt because the Democratic Left is keen to link it to reform of the clearing system operated by the four large banks. It wants to make the system less expensive for the smaller financial institutions, such as credit unions.

By contrast, the government is in agreement about the International Financial Services Centre (IFSC) in Dublin, whose role as the largest centre for offshore fund management in Britain and Ireland it is keen to promote. With \$21bn under management, the IFSC outstrips both Guinness (£15.5bn) and Leinster (£10bn). However, Dublin still has some way to go before it can rival Luxembourg (\$360bn).

The viability of the IFSC is directly linked to taxation policy. The government has extended Business Expansion Scheme legislation to include companies set up to acquire representation on FINEX, the Dublin arm of the New York Cotton Exchange futures market. Individuals investing in these companies are now eligible for income tax relief. The main incentive, however, is the 10 per cent corporation tax rate, which applies to IFSC companies until 2005.

More than 30 companies have set up in Dublin since the start of the year and more than 612 funds are now registered. However, questions are already being asked about what will happen when the 2005 deadline runs out. Officially, the government argues that the other draws of operating in Dublin, especially the abundance of suitably qualified and relatively inexpensive staff, will keep the funds there. Privately, officials say Ireland may seek an extension of the 2005 deadline by the European Union. However, the case would be very hard to argue - the EU has already agreed to one extension.

Economy by John Murray Brown

Europe's new 'miracle' recovery

Only two areas of concern remain as the country records Asian-tiger style growth rates

Ireland's recent economic performance has proven even the most sceptical of forecasters wrong. After what all are agreed has been a record year, estimates for the increase in gross national product in 1995 range from 7.75 per cent from the semi-official Economic and Social Research Institute (ESRI) to a confident 10 per cent from brokers such as Ulster Bank Capital Markets and Goodbody's.

Whatever the exact performance - and those familiar with Irish national accounts at the Central Statistics Office in Cork are going through something of a soul searching period at present - it is increasingly evident that Ireland is experiencing an economic renaissance.

Mr David McWilliams of the London office of UBS, the Swiss bank, points out that Ireland is achieving south-east Asian growth with German style interest rates and inflation.

Two years ago, the sceptics would have pointed out that the growth of the economy was not just in terms of tax receipts for the exchequer but also in terms of jobs for the people: the foreign-owned sector has delivered considerable employment opportunities in rural parts of Ireland, where prospects have been in long term decline.

What's more, continuing strong export performance has been achieved against a back-

taken substantial amounts in regional grants and other funds since joining in 1973. The latest five-year plan - 1994-1998 - envisages a total of £29bn making Ireland the highest recipient of any EU country. As one senior Commission official puts it: "Ireland is the success story on cohesion, the miracle economy".

Inward investment in 1995 reached record levels, with Ireland now the favourite location for US software companies, accounting for 40 per cent of all US software investment in the EU. The government's policy of targeting the high growth areas of computers, pharmaceuticals and financial services is paying dividends not just in terms of tax receipts for the exchequer but also in terms of jobs for the people: the foreign-owned sector has delivered considerable employment opportunities in rural parts of Ireland, where prospects have been in long term decline.

ground of an appreciating Irish pound and a recession among Ireland's main trading partners in the European Union.

Where a few years ago, the growth performance was driven largely by the export sector, led by the foreign-owned high technology companies, today there is a more balanced growth picture, with

Ironically, as Ireland ponders whether to join Emu, it is the UK that is shaping the debate. One question is whether Ireland's domestic manufacturing sector, which is heavily dependent on UK earnings, could withstand the appreciation of the Irish pound that would almost inevitably accompany any move to join Emu on the part of the Irish authorities.

A report by the commission's directorate general for economic and financial affairs published last month, says Ireland is well positioned as the Union moves towards the starting date for Emu. The country already meets two of three important convergence criteria for monetary union - on inflation and the budget deficit. And on the key issue of the size of its debt, commission officials say Ireland is approaching the ratio of 60 per cent of GDP.

However, the commission report highlights two areas of concern. One is referred to euphemistically as Ireland's "labour surplus" - the level of

long-term unemployed, which has remained consistently higher than the Union average. Today, only Spain has a worse rate of unemployment. The second area of concern is the imbalance between savings and investment, reflecting in particular the low level of investment activity by indigenous as opposed to foreign-owned companies.

A more immediate challenge is for the government to avoid the spending pressures, ahead of the next election, which must be called before November 1997.

Already, the Programme for Competitiveness and Work, an Irish version of an incomes policy, is under review, with unions seeking further concessions when the new PCW pact is negotiated later this year.

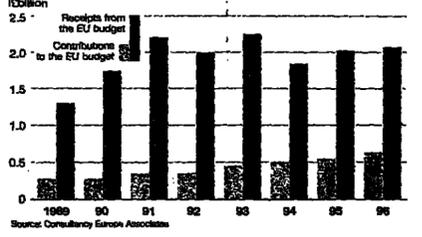
Given the different policy complexion within the coalition, business men and women are concerned that not enough heed will be paid to the need to curb spending.

Already, the government has given ground on a series of civil servants pay disputes

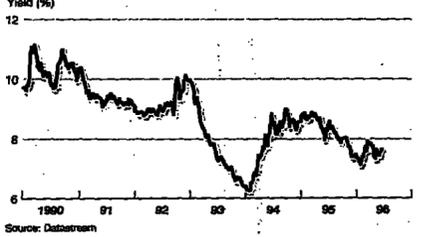
Ireland is ready to face the challenges of monetary union

exports complemented by a booming domestic economy, house prices rising and car sales reaching record levels. The achievement has been helped by sound fiscal and monetary policy, partly determined by the strait-jacket imposed by Ireland's adherence to the narrow band exchange rate mechanism, but helped by a labour policy that has kept wage increases to below inflation for the past two years.

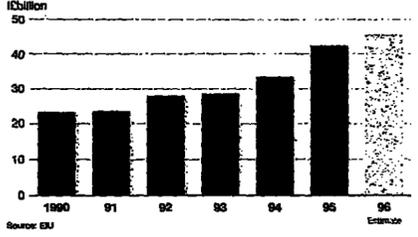
Contributions to and receipts from EU budget



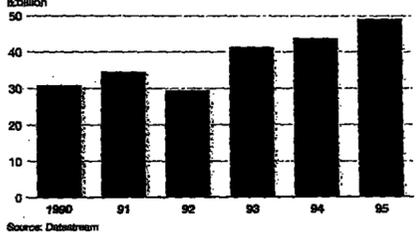
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Merchandise exports



Foreign exchange reserves



Dublin's shares famine

The Dublin stock exchange is probably the one weak point in Ireland's burgeoning financial services sector. Although the index has matched European bourses, foreign institutions complain of poor liquidity and a shortage of stocks.

Since de-linking formally from London last year in line with European Commission rules on financial services, the exchange has performed respectably. But the market is narrow-based, with the top four companies accounting for more than 75 per cent of capitalisation. In addition, there are too few new issues to provide additional momentum. Indeed, the four most recent flotations of Irish companies have all looked outside Dublin, either to London or to the Nasdaq

exchange in New York. The last new issue in Dublin was the flotation of DCC, the small industrial holding group, in 1994.

"It's frustrating to go abroad and make a convincing case for the Irish economy and then find you haven't got a menu of stocks to offer investors," says Mr Robbie Kelleher, head of research at Davy stockbrokers in Dublin.

The problem is partly one of scale. As Ireland's main blue-chip companies grow through foreign acquisitions, the focus of investor relations inevitably shifts to foreign institutions.

Apart from the two big banks, CRH, the building materials group, has also been successful in attracting UK shareholders. Elan

Corporation, the Athlone-based drug company, is already approximately 80 per cent owned by US institutions, and is to all intents and purposes a US company, despite its domicile.

Of the market's four biggest stocks, all rely on Irish earnings for less than 50 per cent of profits. Of these, only CRH and Kerry Group, the dairy and food ingredients company, have outperformed the index. Kerry, strikingly, has achieved this without a significant foreign stakeholding.

With much of the market seen as fully valued, some foreign interest is now being shown in the second-line industrial and retail and hotel groups that replicate the Irish growth story.

Mr Ruairi Quinn, the Irish finance minister, has taken to pointing out that on a per capita income basis Ireland is predicted to overtake the UK by the year 2010, and to achieve the European Union average - before enlargement, which will bring down the average income levels - by 2005.

The strength of the economy has put Ireland in a good position to face the challenges of monetary union, and the enlargement of the Union, with all that will mean for farm incomes as the 15 member states consider applications from the big farm economies of eastern and central Europe. And this is happening as Dublin prepares to assume the EU presidency.

The Irish recovery is clearly of particular satisfaction to Ireland's defenders in the Commission as the country has

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4 IRELAND

Information technology industries: by John Murray Brown

IT helps reverse emigration trend

How investment by foreign electronics companies has transformed the country

At a small office among the dry stone walls of county Galway, Mr Liam Ferris is turned on and tuned in. A Scotsman of Irish descent, who worked for one of the large US computer companies, Mr Ferris has for the last nine years been publishing an electronic newsletter, available on the Internet, for Irish expatriates who want to know about job opportunities in the high technology sector back home.

His Irish Emigrant Professional is just one of the many elements of the information technology story in Ireland. As the country continues to lure the big foreign information technology companies, with the incentive system now

skewed towards the sector, it is beginning to reverse the trend of emigration that peaked in the late 1980s.

Drive west out of Dublin today and in the small village of Leixlip you are confronted with a striking image of how the industry is transforming modern Ireland. At one end of the village is the Wonderful Barn, a curious 18th century folly designed to provide work for the local Catholic Irish peasantry. At the other end, stands the Intel factory, an expansive glass and brick building, where young technicians wear T-shirts and jeans and provide the US company with its main European base for the manufacture of the Pentium chip.

Although less labour intensive than many indigenous industries, the high-tech sector is now creating jobs at an impressive clip. Since the start of the year, the Sonopress CD-Rom plant in Balbrigan



A worker at Intel's Leixlip plant, which makes the Pentium chip

has announced the creation of 300 jobs in a £10m investment. Eastman Kodak's CD-Rom plant in Youghal has created 350 posts, and Digital, which caused a stir a few years ago with the closure of its Galway plant, has announced that there will be work for 225 peo-

ple at its PC technical support centre in Dublin.

The country now accounts for 40 per cent of all US new inward investment in electronics in Europe, including water design and manufacture, systems, communications networks and software. In 1995, the Industrial Development Agency (IDA) secured 23 greenfield investments and expansion projects. The highlight was Intel's decision in the summer to locate the production of its new generation P14 chip for the personal computer market in Ireland.

Multinationals as a whole now account for 75 per cent of manufacturing exports, 55 per cent of manufacturing output and 46 per cent of manufacturing employment. Electronics is now the leading force, responsible for 28 per cent of Irish exports in 1994, compared with just 14 per cent in 1990.

The breakthrough came with

the government's decision to offer a special 10 per cent corporate tax rate for companies involved in manufacturing. The concession applied to both indigenous and foreign businesses and was particularly attractive to high technology companies, which enjoy high growth rates but are required to make large research and development investments.

The availability of a young, skilled and English speaking workforce was also critical to the development of the industry. According to the latest report from the Organisation for Economic Co-operation and Development, Ireland has a higher proportion of graduate scientists than any other OECD member except Japan. This partly reflects government education priorities - money has been spent on new technical colleges - and partly the efforts of companies to improve standards by liaising with the universities.

A recession in the industry would have knock-on effects for the entire Irish economy. Fortunately, its future looks fairly secure. The slowdown in the PC market earlier this year caused a frisson of concern among industry analysts, but Mr Kieran McGowan, the head of IDA, says this is relative, merely meaning that the sector grows by 15 per cent to 20 per cent, as opposed to the 25 per cent achievable in 1995.

Some academic economists question the contribution the high tech industries make, arguing that foreign companies are inflating their Irish operations, through transfer pricing, so as to maximise the proportion of their global revenues that qualify for the low tax rate. Mr Antony Murphy, an economist at Trinity College, makes the point that Ireland showed little of the much-vaunted "feel-good" factor normally associated with an economy that is growing at more than 5 per cent and that has a balance of payments surplus in line with Switzerland and Germany and a labour productivity record that would compare with Japan.

But the sceptics are in a minority. An increasing number of economists believe the foreign investment companies are showing the first signs of deepening their roots in Ireland. Mr Jim O'Leary, an analyst at Davys stockbrokers in Dublin, says the latest balance of payments figures suggest that the rate of profit repatriation by the multinational sector may be slowing down, suggesting that a larger proportion of earnings is now being reinvested. As skills levels improve, the next big question for the foreign multinationals will be whether to move their design and marketing arms under the roof of their Irish operations.

CASE STUDY Kerry Group

Glorious food stock

Mr Denis Brosnan would no doubt like a few quiet days to spend time with his horses. But in recent months, the managing director of Kerry Group, who is also chairman of the Irish Horse Racing Authority, has had little opportunity to linger. His company is pursuing a hectic global strategy that has become the envy of the Irish food sector.



Denis Brosnan, faithful to his Irish domicile

Today, the Tralee-based food and food ingredients concern is setting the pace in an industry that - if no longer flavour of the month for Dublin stockbrokers - remains vital to the health of the Irish economy.

For all the glamour attached to Ireland's high technology sector, the food industry is still the bulwark of the economy, accounting for the direct employment of almost 200,000 people. The sector has an annual output of £20bn and contributes more than £5bn in net exports. When the low import content of Irish food companies is taken into account, food makes up some 40 per cent of total net exports.

In the public eye, the industry is still living with the bad feeling left by the 1995 Beef Tribunal, where Irish farmers were accused of fraudulently misusing European intervention subsidies. The government, and therefore in turn the Irish taxpayer, was left to meet a record £50m fine imposed by the European Commission.

Today, the food business is having to cope with an uncertain international environment, as it adjusts to the ending of market support in the European Union and to a new global trade regime under the Gatt accords. It is heading itself for what many analysts in the sector believe will be negative impact if Ireland joins the European single currency without the UK. The Irish Farmers union has been the one body that has publicly come out and stated its opposition to Dublin's participation in Emu: many food companies are heavily dependent on UK-based earnings and these could be badly hit if there is a big divergence in exchange rates between the two countries.

Meanwhile, Irish beef producers, partly because of the shared land border with the UK, have been tarred with the same brush as producers across the Irish Sea. Irish embassies across Europe and further afield have launched a public awareness campaign in a bid to differentiate the Irish product.

Few companies have been able to rest on their laurels. While quotas prevailed in Europe for dairy and other products, there was little possibility of organic sales growth. But changes have prompted two parallel and related moves - a consolidation through mergers at home or abroad and a diversification through acquisition as companies seek to achieve international scale.

Concerns such as Avonmore and Waterford Foods - who, like Kerry, both have a co-operative shareholder base - chose to remain in the dairy sector but to expand through acquisition, in Avonmore's case by buying up capacity in the UK when the milk marketing board was deregulated.

Kerry's strategy involved a move into food ingredients. "We thought that milk and meat were too much tied to what happened in Brussels. That was the reality - we tried to move to free markets," says Mr Brosnan. In 1994, the company bought DCA, Allied Domecq's food ingredients business. Mr Brosnan says that this one deal, which cost the company \$40m, transformed not just Kerry's balance sheet but also the entire investor profile of the company.

"In Europe, we're still perceived as a food company, even though only a third of our turnover is derived from primary food products. In the US, food ingredients companies are a separate sector, more akin to pharmaceutical companies, and with a rating to match," he says.

The market would appear to like the takeover. Indeed, despite the fact that much of the international interest in Dublin stocks has been in companies that enjoy an

exposure to the domestic growth story, Kerry has outperformed the index while depending increasingly on overseas corporate earnings. And it has done so without developing a significant foreign shareholder base - although Mr Brosnan would be keen to see an increased overseas holding.

In recent months, Mr Brosnan has turned his attention to the reorganisation of the company's share structure.

It is a sensitive issue. The 5,000 farmers making up the Kerry Creameries Co-op still hold considerable sway over the fortunes of the listed company - the co-operative appointing 15 of the 20 board members, all non-executive directors. The co-operative is currently restricted from reducing its stake in the public company below 51 per cent without approval from its farmer shareholders.

However, Mr Brosnan is now seeking the necessary 75 per cent approval from the Co-op to reduce the threshold. Mr Joe Gill, food analyst at Riada stockbrokers in Dublin, says the share restructuring would release considerable value for the farmers. For investors, the exercise should over the long run encourage greater liquidity in the stock, and provide more flexibility for the management when it comes to consider how to structure future deals.

Because of the inability to dilute the co-operative's shareholding, in the past deals have tended to rely more on debt than equity. Mr Brosnan has proposed that the co-operative shareholders be given an option to reduce their holding to 38 per cent. The company would stipulate that the co-operative shareholding would not fall below 30 per cent without further rule changes. Accompanying this change, the board is to propose a reduction in the number of co-operative members on the board from 15 to nine.

As for changing Kerry's Irish domicile to reflect the increasingly international profile of the company, Mr Brosnan's views are quite clear.

"This is my country. I know every part of it, and all the people in it. I see no reason why the corporate headquarters can't stay here forever and a day," he says. "Besides, our organisation has put this country on the map."

John Murray Brown

Found in 'translation'

For more than a decade, North American software companies such as Lotus, Microsoft, Corel, Claris and Symantec have been choosing Dublin as the centre for the duplication, packaging and distribution of their software to the European market. Half of the PC software sold in Europe now originates in Ireland.

A key element of the industry in Ireland, and a principal factor behind its European pre-eminence, is localisation, the process whereby software, together with on-screen help facilities and supporting documentation, is adapted to the cultural and practical needs of individual markets.

The contribution of the field to the Irish economy is substantial. The Software Localisation Interest Group, a forum that brings together Irish-based localisation companies, estimates that it employs 4,000 of the 12,000 people who work in the software industry in Ireland and that localised products feed an export market worth £2bn.

Both Microsoft's Windows 95, released in 20 languages - 10 at the launch date and another 10 within four months - and Lotus's Notes 4.0, rolled out in 10 languages for four different computer platforms, were adapted in Ireland.

The country's success in attracting this kind of inward investment reflects several factors. Government incentives,

principally in the form of low corporate taxation, have helped the Industrial Development Agency lure North American agencies.

EU and government funds have been wisely used to revolutionise the telecommunications infrastructure, to support education and training and to encourage initiatives such as the Localisation Resources Centre.

Set up with the support of companies, the centre aims to pool software resources and tools, allow for the exchange of information and provide specialised training.

Mr Reinhard Schaller, manager of the centre, believes the Irish localisation business offers a "unique" spirit of openness, with corporate interests set aside. "Companies are opening up and showing their in-house [developed] localisation tools to one another and sharing or swapping tools," he says.

Sharing of expertise must be helpful. The localisation process is a complex one and extends far beyond translation. Cultural sensitivities must be respected in the use of colour, style, forms of address, and the selection of images and graphical representations. Practical demands require the conversion of units of measure and standards such as weights and currencies.

More fundamental modifications are often required, for example in financial software, which may be geared to particular systems of accounting and taxation.

However, software is increasingly constructed with localisation in mind. "The way the base product is engineered has a major impact on the effort involved in localising it," explains Ms Aine Woods, localisation project manager at Corel Corporation.

Good design allows core elements of the software to be changed and tested with ease, while protecting the original program from being adversely affected. The fact that initiatives are being taken to make Ireland's young and highly educated workforce even more skilled should also aid the localisation process. New degree courses in software localisation are being prepared at the University of Limerick and University College Dublin.

Ireland looks set to consolidate its position in software localisation. Mr Ian Dunlop, development director, communications products at Lotus Development, concludes: "Localisation in Ireland has become a mature industry, characterised by its openness, compared with the secrecy of the early days, and by its well-defined structure."

Julian Perkin



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<p>HEAD OFFICE Ireland Ulster Place Dublin 1 Tel: +353 1 463 1000 Fax: +353 1 463 1001</p>	<p>EUROPE Germany Telekomstrasse 11 D-10177 Paris-Mitte Tel: (211) 430 000 Fax: (211) 430 001</p>	<p>Netherlands World Trade Centre Schermersteinselaan 1 1077 XJ Amsterdam Tel: (20) 670 9000 Fax: (20) 670 1021</p>	<p>United Kingdom Ireland House 120 New Bond Street London W1 1 9PQ Tel: (171) 620 3011 Fax: (171) 629 4270</p>
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THE CALL CENTRE OF EUROPE

Golf and tourism: by Kieran Cooke

Where rain won't stop play

Despite unreliable weather, the greens of the west coast have much to offer the golfer

It is a June evening. The sun sparkles on the bay. You see off and his straight down the fairway. But then there is a sudden burst of hailstones. You put on the oilskins, battle to raise the umbrella and, scarcely before you've finished, a velvety hush descends in the air.

The sun is out again. You are left dripping and amazed. The fellow upstairs pulling the weather levers is doubled up with laughter.

Welcome to the game of golf in the west of Ireland. The most predictable thing about the weather on Ireland's Atlantic seaboard is that it's unpredictable. The same goes for the country's golf courses. More than 270 in number, they range from the pristine and perfectly laid out to the downright eccentric.

There are the championship courses such as Ballybunion, Portlaoise and Rossmore Point where you need to bring along the usual fat wallet to pay for a round - plus an arm and a leg.

Then there are the more modest establishments. Here, for under £10, you can enjoy a day's pleasant hacking from green to green, rarely bothered by more than two or three other players.

Leaving the swagger of Dublin well behind you, did your hat due west till you hit the Atlantic in Westport, County Mayo. Westport and its surroundings have some fine places to stay and enough good restaurants and pubs to satisfy the most demanding of tastes.

Westport golf course is in Ireland's first division and includes some knee-wobbling drives over water. However, the trouble with the big



Ballybunion: at the championship-level extreme of Ireland's 270 courses

courses is that a considerable degree of skill is needed even to complete a round. The nine holes offer much more latitude to the dedicated duffer.

A few miles north of Westport on the Newport road turn left to Kilmenna. There, an enterprising farmer has, with a little bit of help from the EU, turned his land into a gem of a course. The clubhouse is a Portakabin. Some of the greens are perched high up over the bay, like take-off ramps on an aircraft carrier.

Mulrany is on through Newport on the road to Achill Island. The club house here is a caravan sunk in a sand dune. Mulrany is an old-fashioned links course, but doesn't have the irritating long beach grass that seems to exercise a magnetic attraction on golf balls.

The greens, always in excellent condition, are surrounded by barbed wire to keep out the cows and sheep.

Achill and Belmullet are two other nine holes within a half-hour drive of Mulrany. Sometimes the winds at Achill are such that retaining any per-

pendicular stance is next to impossible.

At Belmullet, the course is invaded by dunes at certain times of year. I despaired of ever finding my golf ball on the course until I met the local parish priest. "We always play with yellow balls," he said. (The next time I played there the course was full of buttercups.)

If the empty levels are high, all four courses can be played in a day.

If the sun wip, rain and hail do not take your breath away, the views will. On the opposite side of the bay from Mulrany is Frough Patrick, Ireland's conically shaped sacred mountain. It is from there that St Patrick is said to have banished the snakes from Irish soil.

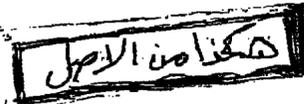
From Belmullet you look straight out towards the Americas. Hardship once forced thousands to leave and go across the ocean in search of jobs. "They were leaving so fast it was as if there was a tunnel all the way to New York," said the priest.

Thankfully, these are better times. Locals still complain that much of the new investment and jobs are going to Dublin and that the population in most western areas is continuing to decline. However, a tourism upsurge has brought new employment opportunities.

Reflecting the growth of the tourist industry, standards of accommodation have improved. There was a time when the Irish breakfast was the only meal worth having; nowadays, good-quality restaurants are opening in even the most remote areas.

In spite of the tourist influx and improved communications with the outside world, the west of Ireland retains its own relaxed, contrary and unpredictable character.

The visiting golf enthusiast should bring along a summer hat, sun lotion and ointment - to stop the midges biting on the warm summer evenings. A pair of wellingtons, a good macintosh and a heavy sweater would also be advisable. Just in case of change.



CURRENCIES AND MONEY

POUND SPOT FORWARD AGAINST THE POUND

Table with columns: Jan 21, Closing mid-point, Change on day, Bid/offer spread, Day's Mid High Low, One month Rate %PA, Three months Rate %PA, One year Rate %PA, Bank of Eng. Int. Index. Rows include Europe, Australia, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, UK, Ecu, SDR, Americas, Argentina, Brazil, Canada, Mexico, USA, Pacific/Asia, East Africa, Hong Kong, India, Japan, Korea, Malaysia, New Zealand, Philippines, Singapore, South Africa, South Korea, Taiwan, Thailand.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Table with columns: Jan 21, Closing mid-point, Change on day, Bid/offer spread, Day's Mid High Low, One month Rate %PA, Three months Rate %PA, One year Rate %PA, J.P. Morgan Int. Index. Rows include Europe, Australia, Belgium, Denmark, Finland, France, Germany, Greece, Italy, Luxembourg, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, UK, Ecu, SDR, Americas, Argentina, Brazil, Canada, Mexico, USA, Pacific/Asia, East Africa, Hong Kong, India, Japan, Korea, Malaysia, New Zealand, Philippines, Singapore, South Africa, South Korea, Taiwan, Thailand.

WORLD INTEREST RATES

Table with columns: June 21, Over night, One month, Three months, Six months, One year, Lomb. rate, De. rate, Repo rate. Rows include Belgium, France, Germany, Italy, Netherlands, Portugal, Spain, Switzerland, UK, US, Japan, LIBOR FT London, Interbank Funding, US Dollar CDs, ECU Linked De, SDR Linked De, 3 MDR interest rates.

CROSS RATES AND DERIVATIVES

Table with columns: Jan 21, Bid, Offer, Change, High, Low, Est. vol, Open int. Rows include Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, UK, Ecu, SDR, Americas, Argentina, Brazil, Canada, Mexico, USA, Pacific/Asia, East Africa, Hong Kong, India, Japan, Korea, Malaysia, New Zealand, Philippines, Singapore, South Africa, South Korea, Taiwan, Thailand.

FT GOLD MINES INDEX

Table with columns: Jan 21, % chg, Bid, Offer, High, Low, Est. vol, Open int. Rows include Australia, Canada, USA, South Africa, New Zealand, Philippines, Singapore, South Africa, South Korea, Taiwan, Thailand.

EURO CURRENCY INTEREST RATES

Table with columns: June 21, Short term, 7 days, One month, Three months, Six months, One year. Rows include Belgium, Denmark, D-Mark, Dutch Guilder, French Franc, Portuguese Esc, Spanish Peseta, Sterling, Swiss Franc, Can. Dollar, US Dollar, Asian S'p.

UK INTEREST RATES

Table with columns: Jan 21, Over- night, 7 days, One month, Three months, Six months, One year. Rows include Interbank Starting, Sterling CD, Treasury Bills, Bank Bills, Local authority debts, Discount Market rates.

UK MONEY MARKET

Table with columns: Jan 21, Bid, Offer, Change, High, Low, Est. vol, Open int. Rows include 1m, 3m, 6m, 1y.

UK TREASURY BILL TENDER

Table with columns: Jan 21, Jan 14, Top accepted rate, Amt. rate of discount, Offer to next tender, Min. accept. bid.

BASE LENDING RATES

Table with columns: Bank Name, Rate, %PA. Rows include Adams & Company, Allied Trust Bank, AIB Bank, Bank of America, Bank of Canada, Bank of China, Bank of India, Bank of Ireland, Bank of Italy, Bank of Japan, Bank of Korea, Bank of London, Bank of Mexico, Bank of New York, Bank of Paris, Bank of Portugal, Bank of Spain, Bank of Sweden, Bank of Switzerland, Bank of Taiwan, Bank of Thailand, Bank of Vietnam, Bank of Yugoslavia, Bank of Zimbabwe.

UK GILTS PRICES

Table with columns: Maturity, Price, % chg, Bid, Offer, High, Low, Est. vol, Open int. Rows include 12m, 18m, 24m, 30m, 36m, 42m, 48m, 54m, 60m, 66m, 72m, 78m, 84m, 90m, 96m, 102m, 108m, 114m, 120m, 126m, 132m, 138m, 144m, 150m, 156m, 162m, 168m, 174m, 180m, 186m, 192m, 198m, 204m, 210m, 216m, 222m, 228m, 234m, 240m, 246m, 252m, 258m, 264m, 270m, 276m, 282m, 288m, 294m, 300m.

RIGHTS OFFERS

Table with columns: Issue, Amount, Latest price, 1996 High, Low, Stock, Closing price. Rows include various company rights offers.

STOCK INDICES

Table with columns: Index Name, Jan 21, Jan 20, Jan 19, Jan 18, Jan 17, High, Low, % chg. Rows include FT-SE 100, FT-SE 250, FT-SE All-Share, Nikkei 225, Hang Seng, Dow Jones, S&P 500, etc.

OTHER FIXED INTEREST

Table with columns: Maturity, Rate, %PA, Bid, Offer, High, Low, Est. vol, Open int. Rows include various fixed interest instruments.

Advertisement for The Landmark London hotel. Text: 'The Landmark London S INDIVIDUAL AS YOU ARE'. Includes images of the hotel building and interior.

FT MANAGED FUNDS SERVICE

FT Cityline Unit Trust Prices: dial 0891 430010 and key in a 5 digit code listed below. Calls are charged at 39p/minute cheap rate and 49p/minute at all other times. International access available by subscription only. For more details call the FT Cityline Help Desk on (444 171) 873 4378.

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

Table listing Bermudian funds including Fidelity Currency Funds Ltd, Fidelity International Funds Ltd, and others with columns for fund name, price, and other details.

BERMUDA (REGULATED)**

Table listing regulated Bermudian funds including Atlantic Investment Management Ltd, Atlantic Investment Management Ltd, and others.

GUERNSEY (SIB RECOGNISED)

Table listing Guernsey funds including International Managers (Guernsey) Ltd, International Managers (Guernsey) Ltd, and others.

GUERNSEY (REGULATED)**

Table listing regulated Guernsey funds including ANZ Mutual Co (Guernsey) Ltd, ANZ Mutual Co (Guernsey) Ltd, and others.

IRELAND (SIB RECOGNISED)

Table listing Irish funds including AIB Fund Management Ltd, AIB Fund Management Ltd, and others.

IRELAND (REGULATED)**

Table listing regulated Irish funds including AIB Fund Management Ltd, AIB Fund Management Ltd, and others.

ISLE OF MAN (SIB RECOGNISED)

Table listing Isle of Man funds including AIA Equity & Low Yield Fund Mgrs, AIA Equity & Low Yield Fund Mgrs, and others.

ISLE OF MAN (REGULATED)**

Table listing regulated Isle of Man funds including AIA Equity & Low Yield Fund Mgrs, AIA Equity & Low Yield Fund Mgrs, and others.

JERSEY (SIB RECOGNISED)

Table listing Jersey funds including AIB Fund Managers (J) Ltd, AIB Fund Managers (J) Ltd, and others.

JERSEY (REGULATED)**

Table listing regulated Jersey funds including Bank of Scotland Fund Managers (Jersey) Ltd, Bank of Scotland Fund Managers (Jersey) Ltd, and others.

LUXEMBOURG (SIB RECOGNISED)

Table listing Luxembourg funds including AIB AMRO Funds, AIB AMRO Funds, and others.

LUXEMBOURG (REGULATED)**

Table listing regulated Luxembourg funds including AIB AMRO Funds, AIB AMRO Funds, and others.

NETHERLANDS (SIB RECOGNISED)

Table listing Dutch funds including Fidelity Funds - Contd., Fidelity Funds - Contd., and others.

NETHERLANDS (REGULATED)**

Table listing regulated Dutch funds including Fidelity Funds - Contd., Fidelity Funds - Contd., and others.

NETHERLANDS (SIB RECOGNISED)

Table listing Dutch funds including Fidelity Funds - Contd., Fidelity Funds - Contd., and others.

NETHERLANDS (REGULATED)**

Table listing regulated Dutch funds including Fidelity Funds - Contd., Fidelity Funds - Contd., and others.

NETHERLANDS (SIB RECOGNISED)

Table listing Dutch funds including Fidelity Funds - Contd., Fidelity Funds - Contd., and others.

NETHERLANDS (REGULATED)**

Table listing regulated Dutch funds including Fidelity Funds - Contd., Fidelity Funds - Contd., and others.

FT MANAGED FUNDS SERVICE

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Main table containing fund names, descriptions, and prices. Includes sections for 'OTHER OFFSHORE FUNDS' and 'OFFSHORE INSURANCES'.

MANAGED FUNDS NOTES
Prices are in pence unless otherwise indicated and have been rounded to the nearest pence.
1. Units are sold at the price shown in the table.

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

Table listing companies in the Alcoholic Beverages sector with columns for company name, price, and change.

BANKS, MERCHANT

Table listing companies in the Banks and Merchant sector.

BANKS, RETAIL

Table listing companies in the Banks and Retail sector.

BREWERIES, PUBS & REST

Table listing companies in the Breweries, Pubs & Rest sector.

BUILDING & CONSTRUCTION

Table listing companies in the Building & Construction sector.

BUILDING MATS. & MERCHANTS

Table listing companies in the Building Mats. & Merchants sector.

CHEMICALS

Table listing companies in the Chemicals sector.

DISTRIBUTORS

Table listing companies in the Distributors sector.

DIVERSIFIED INDUSTRIALS

Table listing companies in the Diversified Industrials sector.

ELECTRICITY

Table listing companies in the Electricity sector.

ELECTRONIC & ELECTRICAL EQPT

Table listing companies in the Electronic & Electrical Equipment sector.

ELECTRONIC & ELECTRICAL EQPT - Cont.

Continuation of the Electronic & Electrical Equipment sector table.

ELECTRONIC & ELECTRICAL EQPT - Cont.

Continuation of the Electronic & Electrical Equipment sector table.

ENGINEERING

Table listing companies in the Engineering sector.

ENGINEERING, VEHICLES

Table listing companies in the Engineering, Vehicles sector.

EXTRACTIVE INDUSTRIES

Table listing companies in the Extractive Industries sector.

EXTRACTIVE INDUSTRIES - Cont.

Continuation of the Extractive Industries sector table.

EXTRACTIVE INDUSTRIES - Cont.

Continuation of the Extractive Industries sector table.

EXTRACTIVE INDUSTRIES - Cont.

Continuation of the Extractive Industries sector table.

ENGINEERING

Table listing companies in the Engineering sector.

ENGINEERING, VEHICLES

Table listing companies in the Engineering, Vehicles sector.

EXTRACTIVE INDUSTRIES

Table listing companies in the Extractive Industries sector.

EXTRACTIVE INDUSTRIES - Cont.

Continuation of the Extractive Industries sector table.

EXTRACTIVE INDUSTRIES - Cont.

Continuation of the Extractive Industries sector table.

HEALTH CARE - Cont.

Continuation of the Health Care sector table.

HOUSEHOLD GOODS

Table listing companies in the Household Goods sector.

INSURANCE

Table listing companies in the Insurance sector.

INVESTMENT TRUSTS

Table listing companies in the Investment Trusts sector.

INVESTMENT TRUSTS - Cont.

Continuation of the Investment Trusts sector table.

INVESTMENT TRUSTS - Cont.

Continuation of the Investment Trusts sector table.

INVESTMENT TRUSTS - Cont.

Continuation of the Investment Trusts sector table.

HOUSEHOLD GOODS

Table listing companies in the Household Goods sector.

INSURANCE

Table listing companies in the Insurance sector.

INVESTMENT TRUSTS

Table listing companies in the Investment Trusts sector.

INVESTMENT TRUSTS - Cont.

Continuation of the Investment Trusts sector table.

INVESTMENT TRUSTS - Cont.

Continuation of the Investment Trusts sector table.

Advertisement for ACL (Associated Contract Hire Ltd) featuring the text 'MIRACLE' and 'Working wonders in the world of contract hire and fleet management.' Includes a phone number 0800 269895 and an image of a car.

ENGINEERING - Cont.

Continuation of the Engineering sector table.

ENGINEERING, VEHICLES

Table listing companies in the Engineering, Vehicles sector.

EXTRACTIVE INDUSTRIES

Table listing companies in the Extractive Industries sector.

EXTRACTIVE INDUSTRIES - Cont.

Continuation of the Extractive Industries sector table.

EXTRACTIVE INDUSTRIES - Cont.

Continuation of the Extractive Industries sector table.

FOOD PRODUCERS

Table listing companies in the Food Producers sector.

GAS DISTRIBUTION

Table listing companies in the Gas Distribution sector.

HEALTH CARE

Table listing companies in the Health Care sector.

HEALTH CARE - Cont.

Continuation of the Health Care sector table.

HEALTH CARE - Cont.

Continuation of the Health Care sector table.

INVESTMENT TRUSTS

Table listing companies in the Investment Trusts sector.

INVESTMENT TRUSTS - Cont.

Continuation of the Investment Trusts sector table.

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Continuation of the Investment Trusts sector table.

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Continuation of the Investment Trusts sector table.

INVESTMENT TRUSTS

Table listing companies in the Investment Trusts sector.

INVESTMENT TRUSTS - Cont.

Continuation of the Investment Trusts sector table.

INVESTMENT TRUSTS - Cont.

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INVESTMENT TRUSTS - Cont.

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INVESTMENT TRUSTS - Cont.

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INVESTMENT TRUSTS - Cont.

Continuation of the Investment Trusts sector table.

INVESTMENT TRUSTS - Cont.

Continuation of the Investment Trusts sector table.

Handwritten Arabic text: 'مكتبة ابن الجوزي'

BY TRUSTS SPLIT CAPITAL - Cont.

Table listing various trusts and their financial data, including names like 'The British Trust for Ornithology' and 'The British Trust for Applied Science'.

LEISURE & HOTELS - Cont.

Table listing leisure and hotel companies such as 'The Rank Group' and 'The Travel Corporation'.

OTHER FINANCIAL - Cont.

Table listing other financial services companies like 'The Royal Bank of Scotland' and 'The National Westminster Bank'.

PROPERTY - Cont.

Table listing property-related companies such as 'The Landlord and Tenant Association'.

SUPPORT SERVICES - Cont.

Table listing support services companies like 'The British Telecommunications Group'.

AM - Cont.

Table listing American companies and their financial data.

OTHER INVESTMENT TRUSTS

Table listing other investment trusts.

LIFE ASSURANCE

Table listing life assurance companies.

PAPER, PACKAGING & PRINTING

Table listing paper, packaging, and printing companies.

RETAILERS, FOOD

Table listing food retailers.

RETAILERS, GENERAL

Table listing general retailers.

TEXTILES & APPAREL

Table listing textiles and apparel companies.

INVESTMENT COMPANIES

Table listing investment companies.

OIL EXPLORATION & PRODUCTION

Table listing oil exploration and production companies.

PHARMACEUTICALS

Table listing pharmaceutical companies.

RETAILERS, GENERAL - Cont.

Table listing general retailers (continued).

TRANSPORT

Table listing transport companies.

TOBACCO

Table listing tobacco companies.

LEISURE & HOTELS

Table listing leisure and hotel companies.

OIL, INTEGRATED

Table listing integrated oil companies.

OTHER FINANCIAL

Table listing other financial services companies.

PROPERTY

Table listing property-related companies.

SUPPORT SERVICES

Table listing support services companies.

AM

Table listing American companies.

Advertisement for Rockwell, featuring the text 'Rockwell, builder of the space shuttle, also makes the majority of the fax and data modems in the world.' and the Rockwell logo.

Table titled 'AMERICANS' listing American companies and their financial data.

Table titled 'CANADIANS' listing Canadian companies and their financial data.

Table titled 'SOUTH AFRICANS' listing South African companies and their financial data.

GUIDE TO LONDON SHARE SERVICE. Prices for the London Share Service delivered by FT Data, a member of the Financial Times Group. Company classifications are based on those used for the FT-SE Actuaries Index.

FT Share Service. The following changes have been made to the FT Share Information Service. FT Free Annual Reports. Comprehensive 10-14 page report available on this company, containing key FT stories from the last year, latest survey of company performance and investment recommendations.

4 pm close June 21

NEW YORK STOCK EXCHANGE PRICES

Main table of stock prices with columns for stock symbols, prices, and changes. Includes sub-sections for 'D', 'M', 'E', 'J', 'K', 'L', 'N', 'O', 'P', 'Q', 'R', 'S', 'T', 'U', 'V', 'W', 'X', 'Y', 'Z'.

Advertisement for Hewlett-Packard featuring the text 'Perfect synergy. If the business decisions are yours, the computer system should be ours.' and the HP logo.

Continued on next page

4 pm close June 21

NYSE PRICES

Table of NYSE stock prices including columns for stock name, price, change, and volume. Includes sub-sections for 'Continued from previous page' and 'AMERX PRICES'.

NASDAQ NATIONAL MARKET

4 pm close June 21

Table of NASDAQ National Market stock prices, organized into multiple columns with stock names, prices, and changes.

AMERX PRICES

Table of AMERX stock prices, including columns for stock name, price, and change.

Advertisement for 'Spain' featuring the headline 'Have your FT hand delivered in Spain.' and text about financial services and delivery.

FT GUIDE TO THE WEEK

MONDAY 24

EU farm ministers

EU agricultural ministers meet in Luxembourg (to June 27) for the last council meeting under the Italian presidency. The package of compensation for beef farmers and the BSE problem is expected to form one lively area of debate. The Italians hope to conclude an agreement on the controversial issue of price controls for fruit and vegetables.

Whaling commission

The annual meeting of the International Whaling Commission opens in Aberdeen, Scotland. The IWC exists to conserve whale stocks in order to "make possible the orderly development of the whaling industry". But of the 39 member countries, only two - Japan and Norway - do any whaling; other countries, including Britain, oppose it. The commission will discuss a proposal to ban Japan's use of electric lances and look at other ways in which whales are commercially exploited - including whale-watching by parties of tourists. European Animal Aid will present a petition of more than 300,000 signatures calling for an end to international whaling.

Maritime transport

Negotiators seeking to liberalise maritime transport meet at the World Trade Organisation in Geneva to decide what to do now the US has said it cannot take part in a multilateral accord (to June 28). Among the options are a postponement of the talks until 2000, favoured by Washington, or 1998, favoured by Brussels. Norway, a big maritime nation, would prefer to strike a deal without the US.

Trinidad and Tobago poll

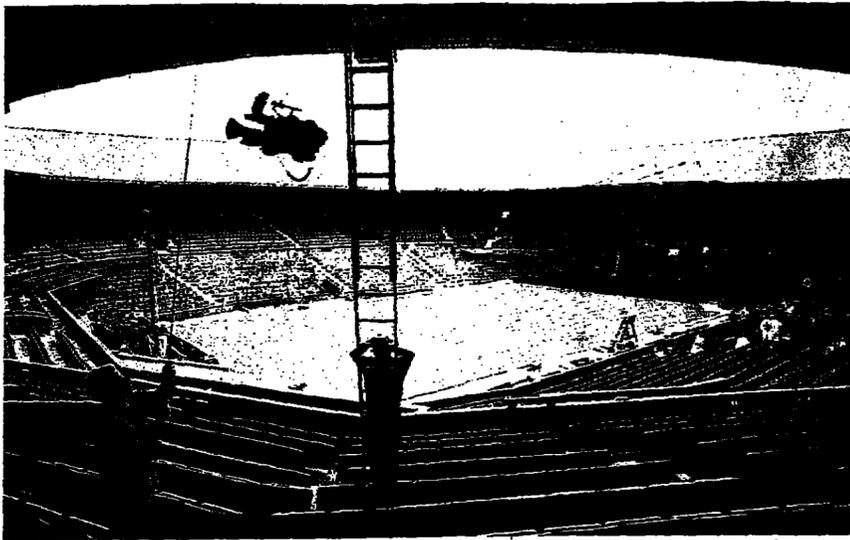
Municipal elections in Trinidad and Tobago are usually met with apathy by most voters. But they will not be ignored on this occasion. The incumbent coalition, led by Basdeo Panday, the prime minister, has been less than cohesive since it took office in November. Bickering over the allocation of seats for the municipal poll undermined the fragility of the government, which has a two-seat majority. If Mr Panday's party wins fewer seats than the opposition - led by Patrick Manning, a former prime minister - he will have little choice but to call an early general election.

Tennis

Lawn Tennis Championships at the All England Club, Wimbledon (to July 5). Boris Becker will be trying to make sure Pete Sampras doesn't make it four men's singles titles in a row. Monica Seles and Steffi Graf are the main contenders for the ladies' final.

Cricket

Second Test, Lord's: England v India.



Court action: A television camera is hoisted into position on the centre court at Wimbledon for today's tennis championships

FT Surveys

Spain; Ireland.

Public holidays

Andorra, Argentina, Canada (Quebec only), Estonia, Latvia, Luxembourg, Macau, Venezuela, Zaire.

TUESDAY 25

Iliescu visits Germany

President Ion Iliescu of Romania makes his first official state visit to Germany in an attempt to improve trade and economic relations. As well as focusing on Romania's ties with the European Union, the Germans will stress the importance of linguistic and cultural rights for Romania's 80,000 ethnic Germans.

Czech parliament convenes

The Czech parliament meets for the first time since an election in which the government of Vaclav Klaus, the prime minister, lost its majority. Mr Klaus says he will already have a new coalition agreement under his Civic Democratic party hammered out. If so, he is expected to be named prime minister, after which he has 30 days to win a vote of confidence.

Cricket

First round of NatWest Trophy.

Athletics

World Games in Helsinki.

FT Survey

Indonesia.

Public holidays

Mozambique, Slovenia.

WEDNESDAY 26

Election in KwaZulu Natal

The South African province of KwaZulu Natal holds its long-awaited local election amid hopes that peace initiatives from local politicians will calm tensions. The election has been postponed three times because of boundary disputes, bloodshed and administrative problems.

Mongolia in WTO talks

Talks resume in Geneva on Mongolia's application to join the World Trade Organisation. WTO officials say the talks are at an advanced stage, possibly enabling Mongolia to join the world trade body this year.

Football

The Euro 96 semi-finals. England, penalty shoot-out victors over Spain at Wimbledon on Saturday, are back at the national stadium to face title favourites and old World Cup rivals Germany who beat tournament newcomers Croatia in a hard-fought match at Old Trafford, Manchester, yesterday. France, who outscored Holland in another penalty decider at Anfield, Liverpool, on Saturday, are at Old Trafford to take on the winners of the Villa Park quarter-final.

Rugby League

European Super League Championship, Cardiff. Wales v England.

FT Surveys

Engineering Review; Power Generation Equipment.

THURSDAY 27

G7 summit in Lyon

Heads of government and finance ministers from the Group of Seven leading industrial countries arrive in Lyon, France, to begin their annual economic summit. The agenda includes reform of the United Nations and proposals to alleviate the debt burdens of poor countries. The Russian prime minister will have discussions on Friday and Saturday on prospects for Russia after the first round of its presidential election, progress on the reconstruction of Bosnia and the Middle East peace process following the election of Israel's right-wing government.

Pasok congress

Greece's governing Panhellenic Socialist Movement will go ahead with its extraordinary congress to elect a successor to its founder, Andreas Papandreu, who died yesterday. Costas Simitis, the Greek prime minister, who took over after Papandreu resigned in poor health in January, andakis Tsahatzopoulos, the interior minister, a Papandreu lieutenant, are the top candidates to replace him as Pasok president.

Talks on East Timor

Boutros Boutros-Ghali, the United Nations secretary-general, holds a second round of

talks on East Timor in Geneva with Indonesian foreign minister Ali Alatas and his Portuguese counterpart Jaime Gama. Indonesia, whose 1976 annexation of the territory has never been recognised by the international community, has threatened to force a showdown on the sovereignty issue in the UN if there is no progress in the talks with Portugal, the former colonial administrator.

Japanese shareholders

Most of Japan's top companies will hold annual shareholders' meetings. They include 1,380 listed companies, who make up 95 per cent of the Tokyo Stock Exchange, plus another 1,000 or so unlisted groups. They are traditionally clumped together in an attempt to outwit corporate extortionists, or *sokaiya*, who attempt to extract cash from companies in return for a promise not to disrupt the brief and superficial rituals which companies like to preserve at these gatherings. The most interesting meeting will be at the Osaka-based Sumitomo Corporation, whose shareholders will be interested to know how it will handle a \$1.8bn (£1.17bn) loss on copper trading.

Witnesses against Karadzic

Witnesses to alleged atrocities committed by Radovan Karadzic, the Bosnian Serb leader, and General Ratko Mladic, the Bosnian Serb commander, will be called to testify before an open hearing in The Hague at the UN tribunal for war crimes in former Yugoslavia.

Golf

French Open, Paris (to June 30).

FT Surveys

China; UK Research and Development.

FRIDAY 28

Kohl's savings package

Chancellor Helmut Kohl's government brings its DM70bn (£29.7bn) savings package before the Bundestag, the lower house of parliament, for its third and final reading. The proposals, designed to cut government spending and create new jobs at a time of record postwar unemployment, have been tinkered with following union protests and are expected to face further opposition in the Bundestag, the second chamber, controlled by the opposition Social Democrats.

Spanish privatisation plans

Plans for selling state-owned shares in Spanish companies should become clearer when the new centre-right cabinet meets to discuss its privatisation programme. It is the first time a Spanish government has adopted an overall strategy for reducing state holdings. Main targets include stakes in the Repsol oil and gas combine, Telefonica, the Endesa electrical utility, the Argentina banking group and the Tabacalera tobacco concern.

Test ban treaty

Disarmament negotiators in Geneva are due to conclude a test ban treaty for signing at the next session of the United

Nations general assembly in September. The talks, which began in early 1994, continue at the 61-nation UN disarmament conference and include the five declared nuclear weapons states and the three "threshold" states - Israel, India and Pakistan. Of the five nuclear powers, only China is still testing. Beijing says it will observe a moratorium from September when the treaty is signed.

Take Your Dog to Work Day



Organised by the Blue Cross animal charity and Dogs Today magazine, Take Your Dog to Work Day aims to persuade employers to allow staff to take their canine friends into work. According to the Blue Cross, "taking your dog to work is a scientifically proven stress-buster". Participants are encouraged to donate £1 to the charity which last year found homes for 8,000 unwanted dogs, cats and horses.

Public holiday

Guatemala.

SATURDAY 29

Public holidays

Brunei, Chile, Costa Rica, Italy (Rome only), Malta, Peru, Seychelles, Tahiti, Vatican City.

SUNDAY 30

Muslims and Croats vote

Muslims and Croats go to the polls in the divided city of Mostar, southern Bosnia-Herzegovina, in a crucial test of the Dayton peace accord. The municipal elections, postponed last month because of a threatened Muslim boycott, provide for a new central administration in a city, currently run by the EU.

Dominican Republic run-off

A successor to President Joaquín Balaguer of the Dominican Republic will be elected in a run-off election, but it is unclear whether social democrat José Francisco Peña Gómez, who obtained most votes in May, will win. Leonel Fernández, a centrist and Peña Gómez's rival, has the open support of Mr Balaguer who dominated the country's politics for 30 years before being forced into retirement by electoral reforms.

Football

Euro 96 Final, Wembley Stadium.

Motor racing

French grand prix, Magny Cours.

Public holiday

Sri Lanka.

Compiled by Simon Strong. Fax: (+44) (0)171 873 3194.

ECONOMIC DIARY

Other economic news

Monday: German consumer price data this week are expected to show inflation fell in June, which may raise expectations of a cut in short-term interest rates.

Tuesday: Finnish GDP growth is expected to have slowed sharply in the first quarter of the year. US home sales are expected to point to continued strength in the housing market.

Wednesday: US durable goods orders are forecast to have rebounded last month after declining in April. Spanish GDP growth is expected to have slowed in the first quarter of 1996.

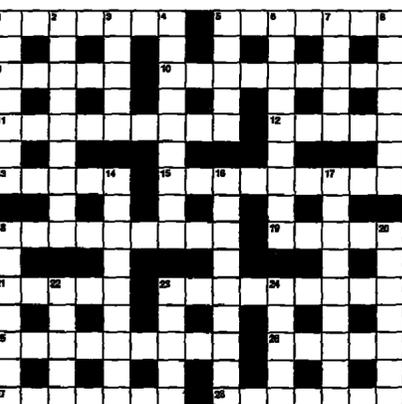
Thursday: The meeting of G7 heads of government begins in Lyon, France. Japanese industrial production is forecast to have grown last month but retail sales are expected to have fallen. Economists expect the UK's visible trade gap to have widened in April.

Friday: The UK's current account is expected to have improved slightly in the first quarter, thanks to a rise in the invisibles surplus. UK first quarter GDP data are expected to show no change from earlier estimates. The Japanese unemployment rate is forecast to have fallen slightly last month.

Statistics to be released this week									
Day Released	Country	Economic Statistic	Median Forecast	Previous Actual	Day Released	Country	Economic Statistic	Median Forecast	Previous Actual
Monday	Germany	Jun Hesse cost of living	-	0.2%	Thurs	Italy	Apr unemployment rate	12.0%	12.1%
June 24	Germany	Jun Hesse cost of living	-	1.2%	June 27	Spain	Apr industrial production	4.1%	-6.9%
	Germany	Jun Baden Wuertt cost of living	-	0.1%	Fri	US	1st quarter GDP final	2.3%	2.3%
	Germany	Jun Baden Wuertt cost of living	-	1.3%	June 28	US	Jun Chicago NAPM	-	53.0%
Tuesday	US	Mitsubishi index	-	Unch		US	Jun Michigan sentiment final	-	53.3
June 25	US	Jun consumer confidence	102.0	101.2		US	Jun agriculture prices	-	3.7%
	US	May existing home sales	-	4.22m	Japan	May unemployment rate	3.3%	3.4%	
	Japan	Apr coincident index	25.0%	40.0%	Japan	Jun consumer price index Tokyo	0.3%	0.2%	
	Japan	Apr leading differential index	65.6%	46.6%	Japan	May construction orders	-	1.5%	
	France	May consumer price index final	0.2%	0.2%	Japan	May housing starts	10.7%	12.3%	
	France	May consumer price index final	2.4%	2.4%	UK	1st qtr GDP (final), qtr on qtr	0.4%	-0.4%	
	France	May household consumption	-0.2%	-1.4%	UK	1st qtr GDP (final)	2.0%	2.0%	
Wed	US	May durable orders	1.1%	-1.9%	UK	1st qtr current account	-22.0bn	-21.8bn	
June 26	US	May durable shipments	-	-1.8%	During the week...				
	France	Apr trade balance	FFr10.2bn	FFr12.1bn	Japan	May dept store sales	-	1.7%	
	Canada	May ind prod price index	-	-0.1%	Japan	May supermarket sales	-	-1.1%	
	Canada	May raw materials price index	-	3.0%	Germany	Jun N Rhine W'phal cost of living	-	0.3%	
Thurs	US	M1 (week ended June 17)	\$3.0bn	\$6.9bn	Germany	Jun N Rhine W'phal cost of living	-	1.6%	
June 27	US	M2 (week ended June 17)	\$3.0bn	\$4.6bn	Germany	Jun Bavaria cost of living	-	0.1%	
	US	M3 (week ended June 17)	\$5.9bn	\$3.7bn	Germany	Jun Bavaria cost of living	-	1.5%	
	Japan	May retail sales	-0.3%	-1.1%	Germany	Jun pret-cost of living, west	0.2%	0.2%	
	Japan	May industrial production	2.6%	3.2%	Germany	Jun pret-cost of living, west	1.3%	1.3%	
	Japan	May shipments	-	2.7%	Germany	May import prices	0.2%	0.3%	
	UK	Apr global visible trade	-£1.1bn	-£0.9bn	Germany	May import prices	1.0%	0.8%	
	UK	May ex-EC visible trade	-£0.9bn	-£0.8bn	*month on month, **year on year, †seasonally adjusted. Statistics courtesy NMS, IHS, regional.				

- ACROSS
- Extra helpings or extras help (7)
 - Divisions of the church (7)
 - About to break the law, by gum (5)
 - Unrivaled type of fruit (9)
 - He is not still in business (9)
 - The last word in pictures (5)
 - Single issue of new coins (5)
 - Office that gives teachers a cheerful start (9)
 - New or ancient vessel (9)
 - Fed up, but tried anew (5)
 - You're entitled to it, but it's not left to you (9)
 - They try to avoid anything in the line of duty (9)
 - Start moving to Nigeria (9)
 - He finds seats for us beside the woman (5)
 - This leg break shows quickness of the hand (7)
 - It's shown by a person who's retiring (7)

- DOWN
- Unorthodox priests who may get up to mischief (7)
 - A crest in case is not ordered (9)
 - This will do for the present (5)
 - Card one has not turned over (9)
 - A Spaniard of Norse extraction (5)
 - Precipitate way the staff leave school assembly? (9)
 - Strictly speaking, the tail of a dog (5)
 - Disposes of at a higher price (5)
 - The shortsighted could plainly see it was dangerous (4,5)
 - Other people find their activities very painful (9)
 - Work of a forger, bent but possibly lucky (8)
 - Young lad among the transport containers (7)
 - Abandons wastelands (7)
 - A leading publication (5)
 - Not much of a way to hold Billy (5)
 - Posh number in a jolly setting look flashy (5)



MONDAY PRIZE CROSSWORD No.9,102 Set by DANTE

A prize of a Pelikan New Classic 380 fountain pen for the first correct solution opened and five runner-up prizes of £25 Pelikan vouchers will be awarded. Solutions by Thursday July 4, marked Monday Crossword 9,102 on the envelope, to the Financial Times, 1 Southwark Street, London SE1 1NF. Solution on Monday July 8. Please allow 28 days for delivery of prizes.

Name _____
Address _____
Postcode _____

Winners 9,090 Solution 9,090
St. Thomas, Bath
Mrs Jessie L. Hanscomb, London W8
Jon Cray, Moseley, Birmingham
T.R. Hall, Hindhead, Surrey
Brian Candy, Maidenhead, Berks
M.O. Newman, Camberley, Surrey



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JOTTER PAD

Tim Jackson

Too soon to write off dead trees smeared with ink



One of the hoariest legends in advertising concerns a company that spent tens of millions a year on advertising. "Half of it is wasted," complained the chairman to his ad agency. "The trouble is, I don't know which half."

The Net is changing that, by allowing owners of Web sites to find out at low cost where their customers are coming from. That information can then be passed on in detail to advertisers. The novelty of this helps to explain the controversy over Yahoo! and Procter & Gamble. Yahoo! is a free search service that helps people find information on the Web, and which earns its revenues by selling online advertisements to companies. Like

most of the leading Web media, Yahoo! likes to charge advertisers "per impression", meaning per occasion on which the company's ad is viewed by a potential customer. In terms of precision pricing, this is already an advance on print and television advertising, where rate cards are usually based on circulation or viewing figures for an issue or programme - not on how many readers or viewers look at a specific ad.

But Procter & Gamble wanted to go further. Rather than paying per impression, it wanted to pay only when a potential customer clicked on its ad and jumped to a page of information prepared by the company itself. The print or television equivalent would be to pay per copy returned or per inquiry call generated. To the horror of its competitors, Yahoo! agreed to Procter &

Gamble's demand. Its decision raised a storm of criticism from other web site owners, who felt that by allowing Procter & Gamble to pay on a "clickthrough" basis instead of per impression, Yahoo! had sold the pass, and would force everybody else to do the same. The critics were half right in that the deal will probably become a template for the entire industry.

But does this matter? True, the deal gives the advertiser little incentive to invest in good ad copy, because bad ads will cost less to run. But Web site owners have a less respectable reason for opposing the principle. Too little is known about how willing Web users are to transact business electronically, and about how much time they spend looking at ads rather than drumming their fingers waiting for pages to appear down a slow phone

line. When Web advertisers realise that advertising is less effective than they expected - an outcome that the Procter & Gamble deal makes more likely - they may conclude they have been overpaying.

During the next two or three years, numerous Web content businesses will close when they find themselves unable to cover editorial costs by advertising revenues. And once the Web advertising balloon is pricked, even those that survive may find themselves considerably less profitable than today's hockey-stick projections and sky-high valuations would imply.

A perfect example of the latter kind of business is Wired Ventures, the holding company for America's most fashionable technology magazine, *HotWired*. Started in 1994, *HotWired* is clever and technologically innovative, and has been spending heavily on good content to develop a pioneering electronic product that people want to read.

It requires some guesswork to say how the two different busi-

nesses are doing. But if sales, marketing, general and administrative costs are split out according to the number of people working on each side, the figures for first quarter 1996 look something like this. The magazine made a marginal loss of about \$160,000 on sales of just over \$7m, probably a result of offsetting early-stage costs in its British and Japanese editions against profits in the US edition. The online side made a staggering loss of \$3.7m, the result of deducting \$4.2m of costs from its \$500,000 of sales.

The paper magazine is a hot property. Its subscribers' average age is 37, their average income is \$122,000 a year, and half of them hold two university degrees or more. Circulation is growing at a mouth-watering rate. The online service was dismissed cruelly but accurately by a US commentator as

"a hobby, not a business". Yet the online service, whose readers are younger, poorer and less well educated, and which faces considerable uncertainty as to whether it will ever win enough advertising to cover its costs, is valued by the IPO at \$350m or more.

As the number of Net users grows and sale of online information becomes common, there may be great opportunities in Web publishing. But at present, publishers may find that their existing businesses, disparaged by the online folks as "smeared ink on dead trees", produce better returns than the fashionable online stuff. The valuations placed on content businesses like *HotWired* by US investors may make sense in two or three years. They certainly do not make sense now.

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Brave new world boasts a phone by every deckchair

Hugh Carnegy outlines a Finnish vision of a telecoms utopia

You are on holiday, the children are romping happily on the beach at your feet and it is the perfect scene for the postcard you forgot to send the grandparents. No problem. Snap them with the digital camera and hook it up to the mobile phone. Write a short message via the phone key pad and send the combined picture and message instantly home to Mum without stirring from your deck chair.

That kind of thing will quite soon become commonplace if the vision of the future being pursued by Nokia, the Finnish telecoms equipment supplier, is fulfilled. After the worldwide explosion of growth in mobile phone use, Nokia is now looking to the transmission of data - including images - as the next step in radio-based, cellular telecoms to add to traditional voice transmission.

"We are not talking rocket science," says Mr Anssi Vanjoki, head of Nokia's Europe and Africa mobile phones division. "We are talking about things that will be here before the year 2000. All the components are known today - it is a question of putting them together with low-cost efficiency."

Nokia, the world's second largest supplier of mobile

handsets, predicts that within five years 50 per cent of all cellular traffic will be data - compared with less than 10 per cent today.

Analysts' eyebrows shoot up at this dramatic prediction, which implies a sudden surge in the use of expensive products only now in their infancy. With coverage and capacity of cellular systems still patchy enough to cause some complaints about mobile voice quality, the prediction requires strong faith in the development of cellular technology.

Nokia will seek to convince the sceptics with a new product to be launched in August. Called the personal communicator, the Nokia 9000 combines a telephone, fax, e-mail and Internet connections, notepad facilities and personal organiser with 2 megabyte capacity, clock, calendar and calculator all in one pocket device.

At first sight it looks like a chunky regular mobile (at almost 400g it is bigger and weighs more than twice the latest mobile handsets). But it opens on a hinge down its length to reveal a miniature keyboard and nine-line LCD screen to command its remarkable range of functions.

You can write a fax and send it directly. You can receive and

send e-mail. You can work (or play) on the Net. You can dial cellular numbers and use the speaker phone and use the screen while you talk, perhaps to consult the document you have just received by fax or e-mail. All from the airport lounge, or from the train to work - or from the beach.

There must be a big question mark over how great demand will be for such a device: it will be expensive - costing about £1,000 or more; it will not offer a practical replacement for the laptop computer to the business traveller who works extensively during a trip. But Nokia is convinced that the 9000 is only the first step towards greatly extended cellular data transmission use.

To date, a limiting factor has been the low speed of data transmission via radio waves - which left cellular data transmission lagging far behind the capacity possible on fixed-link or satellite connections. But Nokia engineers say the gap is fast being closed as the industry works out how to compress the data on radio signals.

The key is the use of digital systems. Nokia will not launch the 9000 in the US as the US cellular network is still predominantly based on analogue systems which cannot handle

data transmission. In Europe, the GSM standard digital cellular system has wide enough coverage to make the use of a device like the 9000 viable.

Assuming the engineers can dispel any doubts about technical quality, Nokia contends that the sky will be the limit for digital-based cellular communications. At present, the highest penetration rates for mobile phones in the world is 35 per cent of the population in Norway and Sweden. Mr Nigel Litchfield, Nokia's head of marketing, says with considerable bravado that eventually penetration rates for all kinds of cellular devices can reach more than 100 per cent.

He argues that cellular use will be extended not only geographically and for voice, but also into countless new functions. These range through picture transmission, cellular video-conferencing, vehicle navigation systems and electronic payments systems to devices to transmit automatically to utility billing departments electricity, water and gas meters.

Cellular fashion gadgets will also become common, he predicts. "Within 5 to 10 years the wristwatch phone will be available. That will happen."



Louise Kehoe reviews the first issue of Microsoft's new webzine

Down to earth in cyberspace

Michael Kinsley, editor of Microsoft's new Slate Webzine, published today for the first time on the World Wide Web, is not seeking to endear himself to Internet enthusiasts or his new high-tech masters.

"We intend to take a fairly sceptical stance toward the romance and rapidly escalating vanity of cyberspace," he says in the introduction to the first issue of Slate (<http://www.slate.com>). "There is a deadening conformity in the hipness of cyberspace culture in which we don't intend to participate."

Part of Slate's mission, Mr Kinsley says, will be to "bring cyberspace down to earth".

The first issue of Slate achieves this goal to a significant degree.

It is - as he acknowledges critics will charge - a print magazine published in a new electronic medium. There is no animation. There are few graphics, few links to other sites, and few opportunities for reader interaction.

Indeed, there is little to recommend reading Slate on a computer rather than on paper.

The first hint that Mr Kinsley has only half-heartedly embraced the electronic medium comes on the contents page. There, readers are invited to explore options that

include receiving Slate via electronic mail, downloading articles to read later, printing articles, or subscribing to "Slate on paper".

In contrast to most webzines, Slate includes several lengthy texts. Mr Kinsley offers no excuses. "We are running rather long articles comprised mostly of words... and putting our links mostly at the end of pieces, not in the pieces. That

Slate is designed to appeal to readers who "already read serious magazines but are not cyberbreaks," says Kinsley. Most of the other webzines are little more than "trade publications."

is rather conservative by Web standards and will probably raise a lot of complaints," he says.

In fact, Slate makes little use of Web technology to create links to related sites, one of the basic characteristics of the World Wide Web.

This might, for example, have enabled a reader to switch from a Slate article about the changing social aspirations of Jewish Americans to another site that offers further insight on Jewish American culture. But it is not there.

Rejecting the use of this and

other aspects of Internet technology is akin, one reviewer of Slate said, "to insisting on publishing a hand-written book. It may stand out, but it is better".

Mr Kinsley, however, is determined not to allow technology to compromise the quality of articles written for Slate. New users of the Internet are at first entranced by the technology, but when the excitement wears off they

start looking for something worth reading, he says.

Perhaps the greatest disappointment of Slate, however, is its insular view. Although it is published on the World Wide Web, it is a very American magazine and moreover a very East Coast US magazine.

Mr Kinsley has moved to the "other Washington" but it is clear that his interests still lie in the US Capital. Already, he is fretting that his new locale places him "outside the buzz".

"It would be easy to publish a magazine on software from Redmond, Washington. It is

more difficult to publish a political magazine here," he complains.

He is not sure how much interest there will be in Slate's articles about politics among his new colleagues. Most of what is talked about in "DC" "doesn't get on their radar screen," he says. So will it get on their computer screens?

Slate is designed to appeal to readers who "already read serious magazines, have access to the Internet but are not cyberbreaks" Mr Kinsley says. Most of the other webzines are little more than "trade publications" written for Internet enthusiasts, he maintains. "Hotwired is a really interesting magazine, but you would not want to read it unless you were really interested in the Web."

In one respect, however, Slate will be an innovator. It is planning to charge readers \$20 (£13) for a one-year subscription, starting on November 1st.

"We believe that expecting readers to share the cost, as they do to the home page of the American Fastener Journal, can be self-supporting," says Mr Kinsley. "Depending completely on advertisers would not be healthy, even if it were possible." Depending on Microsoft for funding does not, however, represent a compromise, he insists.

Cyber sightings

- The Irish Times has revamped its online edition (www.irish-times.com), with new index features, more editorial content and a rather nifty live webcam of O'Connell Street. Just the thing to tug at the heartstrings of expats, who can order the newspaper's print edition for a special US rate via the site, or get details of the daily e-mail service digesting the paper's news, business and sports cov-

erage. Well worth a visit. Lord knows what that celebrated Irish columnist Myles na Gopaleen would have made of it.

- IDATE is a French consultancy partnership specialising in the telecoms and information technology areas. This well-organised site (www.idate.fr) gives details of their services, publications and activities, including their "Cyberspace Advantage Europe" seminar later this year.
- The Exchange and Mart car search (www.exchangeandmart.com) has a database of more than 50,000 used cars, searchable by make, region or price. Easy to use site and sure to attract a huge audi-

ence. Along similar lines is MotorTRAK's car locator (www.motortrak.com) but it's less user-friendly and takes longer to get to the "meat".

- The Financial Information Network (www.finetwork.com) has daily market commentaries and a useful Roundwatch section. Although the commentaries are informative, they can also be somewhat difficult to read given the lack of paragraphing and the blue background.
- Keeping track of companies in the high-tech sector is, literally, a full-time job. But DMC's new Internet Index (<http://index.dmarcon.com>) looks as if it may be a useful

tool for a quick market overview. Composed of 23 companies whose primary business activity is Internet-related, the index is calculated daily and might prove to be a valuable sectoral snapshot.

- Er... www.off.com will take you to the home page of the American Fastener Journal. Exactly why is really up to you.

stere.mrgpookin@ft.com

FTid - The Internet Directory

The following companies want you to know that you can find out more about them by simply looking them up on the World Wide Web.

All of these can be accessed via hyperlink directly from the Financial Times at <http://www.ft.com>

<p>GAM</p> <p>For information on GAM's unit trusts and unit funds see http://www.ukinfo.gam.com Email address: info@gam.com Tel: +44 1624 632 777</p>	<p>International Internet Name Registration</p> <p>net names</p> <p>Have you registered your company, trade and product names around the world? 300,000+ names are already registered, are yours? Protect Yoursell. Register Now</p> <p>FREEPHONE 0300 269049 netnames@netnames.co.uk</p>	<p>FLEMINGS</p> <p>http://www.flemings.lu</p>
<p>Every week on a Monday</p> <p>the FT gives you the chance to advertise your internet site to the FT's influential readers in 160 countries worldwide.</p> <p>In addition all advertisements also appear on FT.Com the FT's internet site. This gives you a unique opportunity to attract our readers to your own site via a live hyperlink.</p> <p>20% of new UK Internet users read the FT*</p> <p>For advertising rates and further details please call Clare Bellwood on 0171 873 3351</p> <p>Source: NOP Research June 1995 UK sample</p>	<p>WHAT CAN THE WEB DO FOR MY COMPANY?</p> <p>IF YOU'D LIKE TO KNOW WHAT MANY OF YOUR COMPETITORS ALREADY KNOW!</p> <p>Net Publishing</p> <p>INTERNET & INTRANET SOLUTIONS</p> <p>CALL NET PUBLISHING NOW ON 01932 855304 www.netpub.co.uk E-Mail: info@netpub.co.uk</p>	<p>www.intranet.co.uk</p> <p>The Complete Solution for the Intranet</p> <p>JSB THE INTRANET COMPANY</p> <p>Demon Internet</p> <p>DEMON INTERNET PIONEERS OF INTERNET CONNECTIVITY</p> <p>To get connected call Demon Internet on 0181 371 1000 E-mail: internet@demon.net http://www.demon.net/</p>
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<p>Isn't it time your business was growing via "the net" with..</p> <ul style="list-style-type: none"> • Your own world wide web (www) site... with your brochure and company profile in colour • Your own e-mail address... for letters, quotes & orders worldwide • Instant market and financial information • Instant - your own ultra low cost internet net system with access to legacy databases <p>CYBERphile will design and outfit your pages, provide FREE 24 hr support, training and hardware (where required) all from as little as £75.00 + VAT per month</p> <p>For a FREE technical appraisal call 01543 45 48 40 FAX: 01543 45 49 39</p> <p>For a FREE technical appraisal call 01543 45 48 40 FAX: 01543 45 49 39</p> <p>or e-mail: info@cyberphile.co.uk or World Wide Web: http://www.cyberphile.co.uk</p>	<p>the internet factory</p> <ul style="list-style-type: none"> ► web design ► consultancy ► systems <p>http://www.netfactory.co.uk tel: +44 (0) 171 379 0344</p>	<p>GAM</p> <p>For information on GAM's unit trusts and unit funds see http://www.ukinfo.gam.com Email address: info@gam.com Tel: +44 1624 632 777</p>

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BUSINESS TRAVEL

Travel News • Roger Bray

Schönefeld facelift

Business travellers who have struggled through the cramped baggage halls and staircase exits of Berlin's Tegel airport will rejoice at the news that Schönefeld is to be re-ramped to become the city's main gateway.

As Berlin becomes established as the new capital of Germany, passenger pressure will become more acute. Tegel, Tempelhof and Schönefeld combined have capacity for 15.6m passengers a year. Last year they handled

just over 11m. By the end of the decade the total is expected to have risen to 15m.

Berlin has opted for a privately financed expansion of Schönefeld rather than a new airport. Schönefeld's single runway will be extended and a second built. A new terminal will be constructed next to the existing railway station. The plans - expected to be rubber-stamped today by the supervisory board of BFF, the Berlin Brandenburg airport holding company, will increase the airport's capacity from around 5m to 23m travellers a year.

Ticketless travel

American Airlines is expected to announce this week that it has joined the lengthening list of carriers offering passengers on domestic flights the option of travelling without picking up a ticket.

Meanwhile British Airways, which has just agreed a controversial alliance with American will launch its first experiment with ticketless travel on July 17. The airline has confirmed it will try out the system on its Gatwick Aberdeen route, with the intention of extending it to all

domestic services next spring. At first reservations will be possible only direct or through BA shops, but in November customers can book through branches of Hogg Robinson and Portman Travel.

Togo warning

Travellers to Togo in west Africa are advised to take extra care following the shooting of a German visitor at a checkpoint in the capital, Lome. The UK Foreign Office warns travellers to stop when requested, submit to all vehicle searches and passport checks, and not to travel at night because of a high level of street crime in Lome.

Cheaper flights

Low fare airlines continue to sprout in Europe. Britain's newest contender is Debonair, which has just launched a no-frills, one class service from London's Luton Airport to Barcelona, Düsseldorf and Munich with up to three round-trips a day. Next month the airline plans to add Madrid - and launch a domestic service to Newcastle. In August it will start flying to Copenhagen. Four fares will be available on each route. Fares will rise progressively as they sell out, from £48, to £69 and then £89 to a top fare of £99.

Australia air-link

A new air link with Australia opens tomorrow when Emirates starts services between its Dubai base and Melbourne. Initially there will be two flights a week, flying 777 but from 11 July the operation will increase to three.

New seats on ANA

Japan's All Nippon Airways has made sweeping changes to its first class cabins - introducing what it claims is the world's largest seat pitch - is the gap between the back of one seat and the one in front is 85cm.

Likely weather in the leading business centres

City	Mon	Tue	Wed	Thu	Fri
London	25	26	27	27	28
Paris	21	21	24	27	28
Frankfurt	21	21	24	27	28
L. Amster.	20	22	22	22	23
Paris	20	23	25	27	28

BEIRUT 0345 320100
DAMASCUS
Amman

The ferries aim to lure frequent travellers away from airlines and Le Shuttle, writes Amon Cohen

Channel of discovery

To most modern business travellers, the idea of journeying between the UK and the rest of Europe by sea seems as quaint as riding from London to Glasgow by stage-coach.

What the jet aircraft failed to do for the old-fashioned cross-Channel ferry 40 years ago, the argument goes, Eurostar has finished off in the 90s with regular, efficient services many times faster than even the quickest of sea vessels.

There is a stigma attached to catching the boat. Boats are for going on holiday," says Ray Vanner, sales manager of Total Spectrum, a CD and computer disc packaging company based in Basingstoke, Hants.

But he is living proof that boats are not just for going on holiday. He travels to the Continent 30 times a year on business and almost always uses the same method - the Sally Ferries four-hour overnight crossing from Ramsgate to Ostend.

He finds being able to take his car ultimately quicker and more flexible than a flight or Eurostar. He gets a good night's sleep in the bargain, something that Le Shuttle, the tunnel's car-carrying service, cannot offer. It is also inexpensive - competitive pressure from the tunnel means that Channel crossings are now cheaper than they were five years ago.

Mr Vanner believes that Channel crossings are "an undiscovered means of business travel" and what statistical evidence there is bears him out. Hoverspeed, which oper-

ates Hovercraft from Dover to Calais and SeaCais from Folkestone to Boulogne, estimates that only 5 per cent of its customers are business travellers.

Geoffrey Ede, managing director of Hoverspeed, believes the market could be exploited far more and is aiming to push that figure up to 10 per cent by the end of this year. To achieve that, Hoverspeed recently launched a Blue Riband class for frequent travellers, which includes priority for loading, unloading, the wait-list and late bookings, and also seating in a designated area, complimentary refreshments, low-cost annual insurance and no cancellation fees.

In short, Hoverspeed is attempting to take on the airlines by imitating them. "We are the first cross-Channel operator to offer an airline-style service, from check-in to duty-free shopping, in our terminals," says Mr Ede.

That will be taken one step further shortly with the planned introduction of dedicated departure lounges for business travellers.

Sally also operates a frequent-user scheme like those run by airlines. Its Nautical Miles programme offers many of the benefits of Hoverspeed's Blue Riband service and awards mileage points.

Ray Vanner finds that the scheme gives him about one free trip in five but he is a



confirmed ferry convert in any case.

"If you are travelling to continental Europe, it is not worth going to see just one person, so you have to get around when you arrive there," he says. "If you fly, you have to hire a car or use taxis or public transport. That is OK if your destination is in a major city but if one of your customers is in a small town 50 miles from an airport, it is better to have a car."

"I can get some sleep on the ferry, wake up refreshed and

be at a supplier by 7.30-am. People start work much earlier in continental Europe so that can be a big advantage, especially if you consider the one-hour time difference between the UK and the continent."

"Air travel, on the other hand, seems to cripple the business traveller. Four of us flew to Amsterdam recently and the price doubled because we were not staying over a Saturday night."

Indeed one advantage for business travellers is that they

are, in a sense, off-peak customers as far as ferry operators are concerned. The standard Ramsgate-Ostend return, for instance, costs £99 for journeys of more than five days but is slashed to £54 return for trips of fewer than five days.

In many respects, however, the greatest competitor for the cross-Channel services is not the airlines or Eurostar but Le Shuttle, the tunnel's motorway service. It is also waking up to the potential of the corporate market and next month will launch a business class that features dedicated toils, fast-track lanes, business lounge and dedicated customer enquiry line.

That is not good enough for Mr Vanner who would still rather have the benefit of spending the night on the ferry. Perhaps it is aimed more at the likes of Roger Ripplingale, managing director of freight company Basilisk Transport, also based in Basingstoke.

Not only does he send his firm's vans on the Hovercraft but he also uses the service himself to visit clients on the Continent. "It's as quick as the tunnel and it's cheaper," he says. "I have checked in at Dover and driven out the other side in 45 minutes."

The actual time at sea is 27 minutes, whereas Le Shuttle takes 35 minutes from platform to platform and one hour "from motorway to autoroute",

Ground rules for flyers

To American business travellers, the frequent flyer programme is irresistible. Airlines can cosset them all they like - the promise of rewards such as leisure breaks on the beaches of Hawaii is what counts.

The 239-member International Air Transport Association has been investigating why travellers plump for particular airlines. It wants to set up industry benchmarks for quality of service. The reasons, it has found, vary in different parts of the world.

In the US, passengers are more likely to be swayed by the quality of frequent flyer deals than to stick with an airline which gives them good service.

In Europe, on the other hand, where there is greater loyalty to national flag carriers, previous good experience remains a much more persuasive factor.

Much the same goes for travellers based in the Asia-Pacific region, where the airline's nationality and reputation are important.

Carolyn Childs, IATA's market research manager, says it is unclear, overall, whether business travellers are searching harder for lower fares.

But she points to evidence that small firms shop around, rather than forego vital marketing forays, and that some

larger companies are setting ceilings on travel budgets, saying "this is how much you have to spend - see how many trips you can get out of it".

That travelling in the back of the bus has its disadvantages, however, is demonstrated by relative levels of satisfaction between business and economy passengers.

More than a quarter of the former are happy with the comfort of their seats - rising to over 30 per cent in North America. But less than 10 per cent of economy passengers are similarly satisfied.

If seats discriminate, stewards and stewardesses appear to be stubbornly egalitarian.

The research reveals a much smaller gap between business customers and the huddled masses behind the dividing curtain when it comes to their appreciation of cabin staff courtesy - particularly in Europe.

Surprisingly, perhaps, the attitude of cabin staff emerged as the single most important element of a pleasant flight when the whole spectrum of fare payers - business and budget - was taken into account. It outweighed seat comfort, the quality of food - and even speed and efficiency at check-in.

Roger Bray

AMERICAN EXPRESS

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مكتبة الرحيل

ARTS

OPENINGS



PARIS

Jazz pianist Oscar Peterson (left) begins a brief European tour at the Salle Pleyel in Paris tomorrow, leading a quartet which reunites him with bassist Niels Henning Ørsted Pedersen. Peterson, who suffered a stroke last year, is said to be back on top form. He plays the Barbican Hall in London on Saturday.

The Pompidou Centre has organised the most comprehensive survey of Francis Bacon's work (right) since the Tate Gallery's retrospective in 1985. It comprises 79 paintings, including the "Three Studies for Figures at the Base of a Crucifixion" (1944) and his final Triptych of 1988. The show opens on Thursday, and moves to Munich in November.



SANTA FE

Santa Fe Opera celebrates its 40th season on Friday with a new production of "Madama Butterfly", staged by John Copley and conducted by the company's founder John Crosby. "Don Giovanni" is revived on Saturday, and the other operas this summer are Strauss's "Daphne", Stravinsky's "The Rake's Progress" and the world premiere of Tobias Picker's "Sermeline".

WASHINGTON

An exhibition of Olmec art from ancient Mexico opens at the National Gallery of Art on Sunday. It includes 17 monumental sculptures from Mexico's museums and archaeological parks, and a cache of stone figurines (left). The show is the first major exhibition of the art of the Olmec civilisation.

LONDON

Premiere at La Scala, Milan, in 1845, Verdi's "Giovanna d'Arco" finally reaches Covent Garden tonight as part of the Royal Opera's Verdi festival. Daniele Gatti (right) conducts, Philip Prowse designs and directs, and the leading roles are sung by June Anderson, Dennis O'Neil and Vladimir Chernov.

The City of London festival opens tomorrow with a performance of Smetana's "My Country" on period instruments, conducted by Roger Norrington (below, left). Three weeks of concerts offer a chance to discover the magnificent churches, lively halls and open spaces of London's Square Mile.

Nancy Meckler and Polly Teale, who together adapted and directed "Anna Karenina" and "The Mill on the Floss" for Shared Experience, now bring "War and Peace" to the stage of the National Theatre. The production opens in the Cottesloe auditorium tomorrow.

Two productions by the Royal Shakespeare Company open at the Barbican this week: "The Phoenix Women", Katie Mitchell's staging of the Euripides tragedy, and "Richard III", Stephen Pinnick's staging, with David Troughton as the celebrated monarch.



The instant you step into one of the seven galleries in the three-storey, pie-shaped building, the secret is out. The American Visionary Art Museum in Baltimore, Maryland, is a museum with a difference. Nobody is whispering. Blatant enthusiasm is encouraged. Biographies of the artists are highly visible - and they do not mention any art schools. Rather, they tell the curious, ordinary, sometimes painful, lives of a farmer, preacher, forest ranger, librarian, neurobiologist, communications analyst, intuitive artists from all walks who express in paint or wood or clay or fibre an inner, irrefragable spark.

"People who find their own way often give us the greatest breakthroughs," says Rebecca Hoffberger, the dynamic force behind the museum. The sense of exuberant eccentricity is characterised by Vollis Simpson's three-ton, 55ft tall, whirligig which is mounted on the outside of the building. It is a colourful, burning, twisting pinwheel made out of found objects - air-filter cups hung on bicycle wheels, propellers, spiralling milk-shake canisters - all whirling in the wind.

Hoffberger spent ten years planning the museum, travelling the country to gather more than 4000 examples of visionary art. She persuaded the city of Baltimore to give the waterfront property (an old copper plant company site and an adjacent former whiskey warehouse), then privately raised nearly \$2m (£3.9m) to open the doors. There is no endowment and the museum receives no city funds. About \$400,000 has to be raised for each new exhibition. One enthusiastic donor was the Body Shop's Anita Roddick, who contributed close to \$1m. The US Congress designated AVAM "a national treasure... a national repository and educational centre for visionary art" and a British Friends of AVAM has been set up.

Architects Rebecca Swanson and Alex Castro designed round the existing 1818 paint factory, adding concrete and magnifying the form which follows the curve of the harbour. The trick, neatly accomplished, was to make it look integral rather than added on. "Unlike other museums, we knew this one had a different spirit - we would need to create a sense of adventure," says Swanson. Light, energy and grace combine in this main building of 35,000 square feet. An inner, glassed ramp at the entrance gives way to a wide, dramatic spiral stair, core of the building, which opens the door to a new world.

Artist David Hess welded and interwove metal branches



Exploring the theme of Rebecca Hoffberger's inaugural exhibition for the museum: 'Tree of Life', made from papier maché, paint and glue by Patrick Davis

Where eccentricity is the norm

Claire Frankel visits the new American Visionary Art Museum in Baltimore

among the iron struts of the handrails which carry the eye straight up to the top skylight. Climbing within the crook of the stair is a 6ft whittled pine assemblage called "DNA" by engineer truck driver Charlie Stagg. It provides a continuing revelation as you wind up to the café overlooking the harbour. Odd-shaped galleries veer off the main stair on each of the three floors.

Hoffberger chose "The Tree of Life" as the theme of her inaugural exhibition, which runs until September 2. It explores "the visionary's intuitive world - a world filled with reverence for nature and respect for her many secrets". An alcove enfolding the haunting sculpture by an anonymous British psychiatric patient is the starting point of the exhibition. Carved of apple wood, this gaunt self-portrait

becomes Humanity; it was given to the museum by Edward Adamson, founder of British Art Therapy, who also donated another work, psychiatric patient William Kirkick's painting of a blind man in a desert who asks the question, "Where am I, who am I, why am I?"

Wandering through this idiosyncratic exhibition, the visitor is alternately delighted, bemused, and shocked. Fantasmagoric dobermans and cats carved out of sycamore and cypress, glistening dragonflies, self-portraits, larger-than-life-sized figures and colourful quilts all have a place. A tree of life has pine cones, squirrels and birds perched on branches, similar in spirit to the new Hyde

Park gates. Carved benches in animal shapes provide seating. Whole walls are devoted to the work of one artist.

Gerald Hawkes says each matchstick he uses represents a human being. He used more than a million to make a circular table and continued his artistry with "My Becky", a portrait made of matchsticks, entwined with food colouring. Computer designer Wayne Kusy took 192,000 toothpicks and built a 18ft model of the Lusitania, followed by one of the Cutty Sark. "If other people consider it art," said Kusy, "I guess it is."

Messages come across clearly: a comical, crouching man with dollar signs for eyes wails down a beautiful neighbourhood and excrete square, grey buildings. It is called "The Real Estate Developer". In

another carving, "Urban Driver" sits in front of his wheel with a grim face on all four sides, red mouths, white teeth, glaring eyes. Funny? Yes and no. "The Kennedys and King" are three standing figures, Jack, Bobby and Martin Luther, each shot through the head with the dates of their deaths below them.

The adjacent Sculpture Barn has 40ft high red brick walls and lofty windows. Greeted by Clyde Jones's colourful, wooden "critters" frolicking on their plinths, we can see beyond to a dramatic group of ten charred cypress trunks, bending this way and that, headless and armless, forbidding figures called "Ancestors".

Self-taught artist Ben Wilson came over from London to

build a non-denominational wedding chapel in the courtyard, now blanketed with wild flowers - "the perfect metaphor," says Hoffberger. Wilson used what he called a "variety of woods like a painter would choose from a palette of paints", constructing a delightful peek-through logged edifice spliced here and there with carved figures, angels, hearts and curiosities.

"We don't want just a repository of interesting things to look at, a visual mausoleum," says Hoffberger. "We hope to expand the whole concept of art by focusing on creative invention in general."

American Visionary Art Museum, 800 Key Highway Baltimore, Maryland. Tel: 4101244-1900 Closed Mondays year-round, and Tuesdays September-May.

'Victim art' put through its paces

CandoCo, the dance company involving performers both able-bodied and physically disabled, is Britain's most prestigious example of what is now known as "victim art". Its premises could not be more correct. In each piece it presents, it shows you the co-existence of those who can use their legs and those who can't; it does not pretend that the disabled do not have their various limitations and, indeed, frustrations; it shows them coping on their own as well as with others; and it does not propose that the only forms of behaviour to be shown to them by the able-bodied should be patience and good manners and tender loving care.

Still, what CandoCo offers is victim art. As sociology, as therapy, as education, it could hardly be more enlightened. As serious aesthetic experience, however, it is a non-starter. And it is dismaying to find how many dance-goers have abandoned their usual criteria to be kind to this frequently dreary and dismal troupe.

That some of them did so until earlier this year is surely because of the phenomenal performing of David Toole - who, though without legs and often dispensing with a wheelchair, often made himself look the most able-bodied person on stage. Not only was his skill in arm movements of a very rare order, he could also perform compelling feats of balance. Most vitally of all, by demonstrating fast and surprising ways of propelling himself around, he could make us see the actual disabilities of being conventionally "able-bodied". However, he has now retired from the stage.

CandoCo choreography usually addresses three movement issues. First, ways in which the able-bodied and disabled can co-exist on stage. Second, things to do with people in wheelchairs. Third, things that can only be done by the able-bodied. And so it was last week when it presented three pieces - all different and all boring - at the Royal Court during the Barclays New Stages Festival.

There is always an awkward moment in any CandoCo performance when the able-bodied seem to be saying to the disabled: "These are the types of movement you can't do." Frequently this is followed by Joe French, a mover of extremely limited ability, advancing to the audience in his wheelchair, his face invit-

ing us to wonder on what kind of thoughts may be passing through his mind. Or by Celeste Dandeker (many years ago an admired dancer with London Contemporary Dance Theatre), whose face, with its soulful eyes, is far from dull. Unfortunately, neither Dandeker nor French are remotely interesting to watch as dancers. You take in their faces, you take in the very limited ability they have from the neck down, and what else is left for you to take in? Very little. CandoCo has never yet persuaded me that the wheelchair has dance potential; or that there is dance pleasure in watching Dandeker and French doing lightweight gestures; or that there is any kinesthetic thrill to be had from watching Dandeker being hoisted and swung in the air.

In *Christy Don't Leave So Soon*, Dandeker embraces two good-looking young men, and

is lifted and supported by them too. Lucky her! But she is a figure of pathos, and her way of turning her face to the audience - the silent stare - is victimhood at its most glibly appealing. In *Trades and Trusts*, a pop-sociology work all about sexy social behaviour by Guilherme Botelho, French has a peculiar non-relationship with a deaf but erotised girl.

At the end, she writhes at his feet like a dumb animal on heat, and he, attaching her to his wheelchair, drags her off while singing (badly) "I can't help falling in love with you". But he neither sings nor speaks nor moves with any finesse.

And the other performers are given only limited opportunities to show how able-bodied they are. All the choreography is of what would usually be called student level; it has a tepid modicum of craftsmanship. Only with Toole did CandoCo ever show any stylistic originality: everything it now does looks like a pastiche of other dances made for able-bodied dancers. Nothing about CandoCo is offensive. But nothing about it, in artistic terms, is good - except for its intentions.

Alastair Macaulay

INTERNATIONAL ARTS GUIDE

AMSTERDAM
EXHIBITION
Beurs van Berlage
Tel: 31-20-625217
● Pablo Picasso, Lust for Life.
Tekeningen, grafiek en keramiek na 1945; exhibition of drawings, lithos, engravings and ceramics created by Pablo Picasso after the second world war. The display includes some 60 vases and plates, and 200 drawings and graphic works from French and Italian private collections; to Sep 1
POP-MUSIC
Koninklijk Theater Carré
Tel: 31-20-6226177
● Elvis Costello & The Attractions; 8.15pm; Jun 29

BERLIN
CONCERT
Philharmonie & Kammermusiksal
Tel: 49-30-2614383
● Mass in B minor by J.S. Bach. Performed by the Choir and Orchestra of the Collegium Vocale Gent with conductor Philippe Herreweghe. Soloists include

Vasiljka Jezovsek, Sarah Conolly, Andreas Scholl, Mark Padmore and Peter Koop; 8pm; Jun 28

BONN
EXHIBITION
Kunst- und Ausstellungshalle der Bundesrepublik Deutschland
Tel: 49-228-9171200
● Wisdom and Compassion. The Sacred Art of Tibet: this exhibition focuses on the traditional themes of the art of Tibetan Buddhism and presents the important stylistic developments from the 9th to the 19th century. On display are 180 objects of sacred art, mainly scroll-paintings (tangkas) and ornate metal sculptures, but also application work and tapestries as well as wood, ivory and stone sculptures with a strong religious expression; to Aug 25

BOSTON
EXHIBITION
Museum of Fine Arts
Tel: 1-617-267-9300
● Gauguin and the School of Pont-Aven: this exhibition includes 80 oil paintings, 30 works on paper and four sculptures as well as works by Bernard and 18 other artists associated with Gauguin's presence in Brittany; from Jun 28 to Sep 15

CAMBRIDGE (US)
EXHIBITION
Busch Reisinger Museum
Tel: 1-617-495-9400
● History, Self, and Society: an exhibition focusing on three self-representations by German artists in which a man's suit plays a

decisive role: Max Beckmann's "Self Portrait in Tuxedo" (1927), Joseph Beuys' "Felt Suit" (1970) and a painting by Markus Lüpertz from the 1970s; to Aug 18

CHICAGO
EXHIBITION
Art Institute of Chicago
Tel: 1-312-4433600
● Roy DeCarava: A Retrospective: exhibition of more than 200 photographs by Roy DeCarava, ranging in date from 1949 to 1994. The exhibition captures the wide variety of subjects he addressed over the years, from intimate still-lives to portraits of jazz musicians to poignant reflections of the panorama of daily human life; to Sep 15

COLOGNE
EXHIBITION
Museum Ludwig
Tel: 49-221-2212379
● Die Expressionisten - Vom Aufbruch bis zur Verformung: exhibition commemorating the collector Dr Josef Haubrich, who donated his collection of Expressionist art to the city of Cologne 50 years ago. The display includes some 400 paintings, sculptures, watercolours and prints from international collectors, giving an overview of German Expressionist art; to Aug 25

COPENHAGEN
CONCERT
Thové Concert Hall
Tel: 45-33 15 10 01
● Tivolis Symfoniorkester: with

conductor Heinrich Schiff and violinist Frank Peter Zimmermann perform Beethoven's Egmont Overture and Symphony No.7; 7.30pm; Jun 29

DUBLIN
EXHIBITION
National Gallery of Ireland
Tel: 353-1-8615133
● Joan Miró (1893-1983): this exhibition brings together some 100 of Miró's graphic works from the collection of the Museo Nacional Centro Reina Sofia of Madrid; to Jul 28

FLORENCE
OPERA
Teatro Comunale
Tel: 39-55-211158
● Aida; by Verdi. Conducted by Zubin Mehta and performed by the Orchestra e Coro del Maggio Musicale Fiorentino. Soloists include Dolora Zajick and Nina Rautso; 8.30pm; Jun 25, 26, 28, 29

GHENT
CONCERT
De Vlaamse Opera
Tel: 32-9-2230681
● Symfonisch Orkest van de Vlaamse Opera: with conductor Stefan Soltesz and the Ladies Choir of De Vlaamse Opera perform works by Debussy and Mahler; 8pm; Jun 27

LONDON
EXHIBITION
The Hayward Gallery
Tel: 44-171-9604242

● Cees Oldenburgh: an anthology: this exhibition includes around 150 sculptures, maquettes, drawings, notebook sketches and film. This American artist's work became prominent with the emergence of Pop Art in the early 1960s; to Aug 18
THEATRE
Barbican Theatre
Tel: 44-171-6388891
● Julius Caesar; by Shakespeare. Directed by Peter Hall and performed by the Royal Shakespeare Company. The cast includes Christopher Reeve; 7.15pm; Jun 28, 29 (also 2, 11)

MELBOURNE
EXHIBITION
National Gallery of Victoria
Tel: 61-3-92080222
● J.M.W. Turner: exhibition of approximately 60 paintings and watercolours by the English landscape painter Joseph Mallord William Turner (1775-1851); from Jun 27 to Sep 10

NEW YORK
JAZZ & BLUES
Blue Note
Tel: 1-212-475-8592
● Lionel Hampton & The Golden Men of Jazz; perform jazz music; 8pm & 11.30pm; from Jun 25 to Jun 30

PARIS
CONCERT
Théâtre du Châtelet
Tel: 33-1 42 33 00 00
● City of Birmingham Symphony Orchestra: with conductor Sir Simon

Rattle perform works by Tippett, Haydn and Shostakovich; 8pm; Jun 28

ROME
EXHIBITION
Museo Nazionale del Palazzo Venezia
Tel: 39-6-6798865
● Felicien Rops. La modernità scandalosa: retrospective exhibition devoted to the work of the Belgian graphic artist Felicien Rops (1853-1939), who settled in Paris in the mid-1870s; to Sep 1

VIENNA
CONCERT
Konzerthaus
Tel: 43-1-7121211
● The United Philharmonic Vienna: with conductor Janos Kulka and soloists Sona Ghazarian, Peter Dvorsky, Leo Nucci and Kurt Rydl perform: works by Donizetti, Puccini, Smetana and Verdi; 7.30pm; Jun 27

WASHINGTON
EXHIBITION
National Gallery of Art
Tel: 1-202-7374215
● Scenes of Daily Life: Genre Prints from the Housebook Master to Rembrandt van Rijn; this exhibition presents 38 prints, six illustrated books and one copper plate depicting scenes of everyday life in Germany and the Netherlands from the late 15th to the late 17th century; to Aug 18

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COMMENT & ANALYSIS



Michael Prowse • America

The golden dream

US conservatives believe that gold should again be allowed to play a role in helping secure monetary stability

One of the first acts of a new US president should be to "stabilise the dollar value of the nation's gold reserves... as a critical first step toward restoring sound money to America". Such was the advice proffered last week by Mr Jack Kemp, a leading Republican strategist and former member of President Bush's cabinet.

His remarks are certain to baffle politicians. The world leaders gathering in Lyons for this week's meeting of the Group of Seven might, at a pinch, consider the merits of stabilising the dollar against another paper currency, such as the yen or D-Mark. But they would be horrified at any suggestion that it be linked to what Keynes dismissed as the "barbarous relic".

Mr Kemp was inchoately voicing opinions shared by many US conservatives. They have been restive ever since President Richard Nixon was forced to sever the link between the dollar and gold in 1971. After that, they note, a lot went wrong. Central banks lost control of inflation. Currencies fluctuated wildly. Budget deficits soared. And productivity growth declined. The demand for a "return to gold" is really a call for the harmony and prosperity of a bygone era.

It is puzzling that such aspirations are dismissed so contemptuously. We have, after all, seen a return of the "Victorian mindset": politicians again profess to believe in the virtues of free markets, low inflation and fiscal discipline. Acceptance of these ideas has allowed a renaissance of private capital markets, which are again fuelling development in far-flung places - just as they did a century ago. Yet one piece of the Victorian jigsaw is still missing: we lack currency stability and suffer periodic bouts of inflation because gold no longer plays a role as a monetary anchor.

And yet currency stability is of the greatest concern to political leaders, especially in

Europe. The European Union has embarked on the politically dangerous course of constructing a new single currency - the euro. But instead of replacing national paper monies with yet another paper money managed by a committee, why not consider reforms that would re-establish a monetary role for gold, a truly international money? Why not create a single market for the whole world, rather than just little Europe?

But how could gold be given a monetary role again? Since governments do not allow people to use gold as a medium of exchange, its true monetary value in terms of existing paper currencies is hard to judge. A return to gold cannot be achieved at a stroke of a pen: politicians cannot simply declare the convertibility of their currency into gold at an arbitrary rate. It is difficult to forget or forgive the economic pain that Winston Churchill inflicted in 1925 by returning Britain to the gold standard at a grossly overvalued rate.

One suggested approach is for the world's governments gradually to privatise their vast - and useless - gold stocks. At present some 35,000 tons of gold sits idly in central bank vaults. As Professor Richard Timberlake, a US

monetary theorist, once proposed, governments could simply issue citizens with certificates or vouchers entitling them to, say, so many ounces of their nation's gold. The process could continue until the gold hoarded in central bank vaults was entirely returned to the people.

Individuals would deposit their certificates with commercial banks which would open special gold current accounts. The banks would present the certificates to the central bank and take possession of the requisite number of gold ingots. Gold would gradually acquire the properties of real money. People would write cheques based on their gold accounts or, if they wished, withdraw gold in the form of coins. Banks would lend against their physical gold reserves.

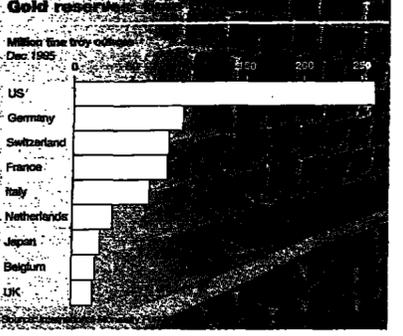
Gold would thus become a medium of exchange in daily use alongside national paper currencies. A true market price of every global currency against gold would be established. And a powerful check against governments' desire to pursue inflationary policies would exist. If the Federal Reserve, say, printed too many dollars the market price of gold would rise instantly and people would switch from

dollars to private gold money. The same would happen if central banks elsewhere tried to inflate: their citizens would switch out of their national currencies into gold.

As a result all currencies would be stabilised against gold. Under the partial gold standards enacted earlier this century, gold remained in the vaults of central banks and thus, ultimately, under the control of governments. This time it would be private money, the guardians of monetary stability would be the people, rather than governments. Short of seizing the privately owned gold currency, there would be no question of "going off gold".

I would be the first to admit that this is a pipe dream. Fort Knox is not going to be dismantled. Gold will remain locked away in vaults, gathering dust. Governments cherish their control of paper monies. They are so marvellously flexible. If you need just a tiny bit more - to win an election, fight a war or finance an expensive social programme - you just turn on the printing presses. Will it cause inflation? Of course, but the impact is delayed and in the meantime any number of economists will deny all possible ill-effects. The fashion of the times may require that central banks be declared "independent", but this changes nothing; in reality they are always subject to political influence.

In the 19th century, national currencies were simply names for certain weights of gold. In effect, there was a single global market and a single global currency. Since its supply was tightly constrained by the cost of gold mining, nobody had any reason to fear inflation. Interest rates were ridiculously low. It is the conceit of politicians - their desire to control and manage the global system - that prevents us restoring this last piece of the Victorian jigsaw, and enjoying the extra wealth that such stability would make possible.



LETTERS TO THE EDITOR

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Wider debate justified

From Mr D.R. Chandler

Sir, It is disturbing that Mr Niall Fitzgerald (Letters, June 18) is unable to distinguish facts from opinions. If I were a shareholder or employee of Unilever, I should want to hear that the company considered that the quality of its goods and services were fundamental to its success and not necessarily the circumstances of the particular market within which it operated. The will to succeed will bring success. However, the EU is more than a single market. It is a political union. Now, whether the balance of perceived economic benefits versus the perceived political disadvantages and the perceived political disadvantages is quite so obvious as Mr Fitzgerald makes out, I am not so sure. Indeed, whether he thinks the political implications are even worth considering is not clear.

What is clear is that Mr Fitzgerald has identified certain benefits to the trading pattern of his own company and is determined to put, as he says, business interests at the top of the European agenda. I do not have a problem with this. What irks is his insistence that there is not a wider debate and his ignoring those many business issues which are adversely affected by European legislation.

If there is to be a sensible, rational debate on the wider issues affecting us all, let's recognise what they are and examine the pros and cons.

D.R. Chandler, 18 Homefield Road, Bromley, Kent BR1 3AL, UK

Questionable economics behind much of materials recycling

From Mr R.G. Loram

Sir, In compliance with the European Commission directive on packaging waste, the UK government has finally agreed a scheme that will impose additional, totally unproductive annual costs on UK commerce and industry of between £200m and £300m. Other EU countries will be in the same boat; Germany has saddled itself with a burden of no less than £1.7bn.

Yet, if you ask the reason for this economic self-flagellation, you will not receive a coherent or logical answer. No-one ever asks the simple question - "why recycle?" There are only two reasons why materials should be recycled: because it is economic to do so or, if it is not economic, because the environmental benefits are such as to justify the cost. The principal environmental

benefit is energy saving, and the reduction of pollution of that energy use. But if the savings are significant they will make recycling economic anyway. Metals recycling is economic, but waste paper and cardboard recycling has always been cyclic because potential supply exceeds demand and the economics are more finely balanced; glass recycling is economic if the public does the collecting but the recycling of plastics is only economic in special cases.

For every academic who will demonstrate that paper recycling is environmentally beneficial you can find at least one, probably more, who will argue to the contrary. Glass recycling is marginally beneficial if there is not too much transport involved but no case has yet been made out for the environmental

benefits of general plastics recycling.

As an energy-from-waste specialist I deplore burying the large quantities of energy in the ground that we currently do in the UK, but economic energy recovery in a competitive, over-supplied electricity market is difficult. There is a respectable argument for a modest subsidy in this field, if it could be effective, on the basis of conserving the finite fossil fuel resources for future generations - but I can see no argument for frittering away European countries' financial resources on uneconomic recycling.

R.G. Loram, 11 Priory Road, West Kirby, Wirral, Merseyside L48 7ET, UK

Quantifying benefits of EU protection

From Prof Patrick Minford

Sir, Martin Wolf, in his thoughtful reasons to my calculations of our net gains from the EU ("Thinking the unthinkable", June 18), argued, as I would, that a country's growth rate depends on its supply-side character and policies; he is as reluctant as I am to attribute any of our growth, or lack of it, to whether we are within the protection of a customs union. Inward investment for the EU market is a case in point. The UK has throughout its history been a receiver and provider of foreign investment which in turn is an important

channel of technology transfer; had we been outside the EU the industries that would have absorbed UK resources and attracted co-operating foreign and other investment would no doubt have been different from those we are now building up within the EU, notably car and electronic assembly. The UK resources, however, and their capabilities would have been the same, as conditioned in particular by the supply-side reforms of the 1980s.

The extra returns generated by the EU protective wall for these industries are nevertheless a benefit to UK providers of resources; it is

this that I attempted to quantify. It would be as unfair - and as empirically supported - to argue that these extra returns somehow damaged our supply-side edge by giving us an easier ride in world markets, as it would be to argue that the diversion of UK resources to these protected industries somehow gave those resources a superior performance.

Patrick Minford, Edward Gomme professor of applied economics, University of Liverpool, Myrtle Street, Liverpool L69 3BX, UK

Do Channel tunnel bankers really deserve sympathy?

From Mr C. Gordon Tether

Sir, The Lex Column has a well-deserved reputation for attaching a high priority to fair play in writing its comments on the corporate business scene. So why do we find it of late sympathising with the hard-done-by attitude the banking community is manifesting about the consequences of its involvement in the Channel tunnel financial cataclysm?

For the reality is, first, that it is the banks' irresponsible disregard of long-established lending rules that has landed them in the present mess and, second, that the losses they have allegedly sustained are in any case largely only on paper. The resources they use being basically derived from short-term borrowing, British banks have traditionally been enjoined from participating in

long-term lending operations or the kind represented by the Channel tunnel. Moreover, they are supposed to have the highest regard for prudence in everything they do. Yet glamorous projects that, like the Channel tunnel, qualify for the description "visionary" are notoriously apt to take far longer to complete than originally envisaged.

With this as the background, it is inconceivable that, if the banking system's lending departments had been asked for their advice about participating in a project so ambitious as to have all the appearance of being "a tunnel too far", they would have answered other than with a resounding negative. From which it follows that, if hundreds of these institutions were in due course to be found rushing, lemming-like to pour

huge sums of money into the venture, it was not ordinary commercial considerations their managements were responding to.

There is no difficulty in discerning what the real motivation was. With the drive for European integration manifestly moving into a higher gear, the centuries-old vision of linking the UK to the continent with a tunnel was being seen in the second half of the 1980s as an idea whose time had come.

Even so, it seems unlikely that the banking system would have been quite so ready to engage in what was essentially a politics-related, collective lending operation if it had not known that there was a way of ensuring that the real cost would not be all that much to worry about if the worst, unhappily, did come to the

worst - notably, by availing itself of its time-honoured credit-creation privileges to fund it.

So the Lex Column should be asking itself, who then is really entitled to its sympathy? Is it the banks who broke their own rules to indulge a political impulse at little cost to themselves and now want to claim ownership of a large part of the completed vision? Or is it the shareholders who contributed real money, drawn from their own pockets, to finance it - who so far have received no reward and are likely to go on being denied one far into the distant future if the banks have their way?

C. Gordon Tether, Hetheringtons, Leazes Hill Road, Worsleypark, Guildford GU8 3QR, UK

Personal View • Tony Miller

Better to give than receive

The west should follow the lead of the Asia-Pacific region in trade liberalisation

By the close of the Uruguay Round of world trade negotiations the boast was that developed country tariffs on manufactured goods had been cut to an average of only 3 per cent. A justifiable boast on the face of it, given pre-second world war highs of more than 40 per cent.

But let us look a little closer at the emperor's new clothes. Surely as tariffs come down the yields also fall for the governments that collect them. And at about 3 per cent, tariffs must surely cost almost as much to collect as they produce in revenue. So why bother to collect them at all? Why not just scrap them?

It certainly does not seem to me much sense to embark on another protracted round of multilateral tariff negotiations simply so trade negotiators can justify getting rid of nuisance tariffs.

Who in their right mind would vote for a tax on consumers which increases the profits of a country's domestic producers at the expense of their international competitiveness while yielding almost no revenue? But a tariff of 5 per cent or less is exactly that.

Manufacturers might grumble about tariff cuts, especially those in the textiles and clothing sector, which covers behind much higher tariffs than apply in other sectors. But politicians in search of

votes ought to be able to capitalise on the simple argument of the self-interest of consumers and the interests economy as a whole in sweeping aside such objections.

Ironically, experience suggests that cutting tariffs when they are high is easier than reducing them further when they are low.

Trade negotiators are often required by their political masters to give away no more than they get in tariff concessions. As tariffs fall they have less and less to give away and they are more and more loath to expend it without others reducing their tariffs first.

The idea that reciprocal reductions are necessary has thus become accepted as a political fact of life even though everybody can see it is economic nonsense. It has crept into both the language and the process of trade negotiations. Demonstrating a balanced outcome through shared pain rather than mutual advantage provides a convenient way of justifying results domestically. So the talk is of

The idea that reciprocal reductions are necessary is accepted as a fact of life even though everyone can see that it is economic nonsense

tariff "concessions" with complaints about "free riders".

Tariff negotiators face each other across the table in Geneva like poker players. They hide their cards. They play as adversaries, as though the game was one in which the winner takes all. At the end of each drawn-out round, all have cards they have kept up their sleeves. Too often the result is one that involves much smaller cuts than many people are prepared to offer simply to ensure that everyone is on board.

But there are signs that attitudes are changing and that enlightened self-interest may yet prevail. This is evident in the moves to free trade and investment among the members of trade blocs such as the European Union and the North American Free Trade Agreement. It can also be seen in the much more courageous reforms decided independently by countries in the Asia-Pacific region. Chile, China, Indonesia and New Zealand are excellent examples of countries whose economies have forged ahead once the barriers have been dropped.

It is this new willingness to bring down barriers unilaterally which inspired the approach to trade liberalisation unveiled by the Asia-Pacific Economic Co-operation forum at Osaka last November. Apec members were committed to achieving free flows of goods, services and investment by 2010 for industrialised members, 2020 for the others. In Osaka they committed themselves to producing individual action plans setting out how each would bring down its barriers to achieve the goal.

Explicitly, there is no intention for the goal to be reached

by bilateral or multilateral negotiations. It will be achieved voluntarily and unilaterally, although where it can be co-ordinated by consultation between members this will be done.

The Philippines used its position as this year's chair of Apec to press further ahead. It has tabled a bold proposal that tariff reductions already agreed by members of the Association of South-east Asian Nations (Asean), which covers part of the Apec area, should be extended to all trading partners by 2000 on a "most favoured nation" basis.

It is exactly this combination of competitive bidding and peer pressure that will ensure Apec leads the way in liberalisation. It is an example which the west would do well to follow.

The countries of north America and western Europe were the architects and chief advocates of the liberal, rule-based, post-war trading system. The relative openness of their markets over the last half century has enabled many developing countries to follow an export-led path to growth. All the beneficiaries are grateful, and some, such as Singapore and Hong Kong, have themselves maintained open markets.

Now that the others are following suit with enthusiastic liberalisation programmes of their own, north America and Europe should not forget the lesson they previously taught. Liberalisation should be a self-interested race to the finish line, not a game of chicken.

The author is director-general of trade for the Hong Kong government and the territory's senior official representative at Apec

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FINANCIAL TIMES

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Monday June 24 1996

Last chance for Lloyd's

It is exactly 200 years since Lloyd's, the London insurance market, began regular meetings of its members. Few have come at a more crucial time than this year's, on July 15. The future of the market lies inside the envelopes sent to each Lloyd's Name in the last few days. Each is being told how much to pay in a final settlement which draws a line under past losses, resolves the host of internal lawsuits in which the market was mired, and shuffles off the burden of past unresolved claims to a new reinsurer company, Equitas. Names will be able to escape forever from Lloyd's - or to participate in a market free of the burdens of the past.

The resolution of the crisis depends on the great majority of Names accepting the offer by the end of August. They should do so. That does not mean the settlement is in every respect equitable; or that it is alone sufficient for Lloyd's future prosperity. But this is the best offer Names will get. Rejecting it will almost certainly involve the liquidation of the market. An overall settlement, even one as complex as this, can only be a rough approximation to fairness. There will remain question-marks over the extent to which some outside names were allowed - or encouraged - to go on underwriting in the 1980s when the risks of the American liability crisis were already known inside Line Street. The settlement of the web of internal litigation, though essential if

Lloyd's was to survive, means this issue will not be aired in court.

Similarly, the settlement may reward some Names who have persistently refused to pay legitimate demands at the expense of others who have loyally paid up claims of more dubious merit. But for most Names the plan offers finality in return for a payment lower than they might have expected a few months ago.

Even if the plan is agreed, Lloyd's will need skilful business management. As a collection of specialist insurance boutiques, the market has a future - but only if it retains the scale efficiencies provided by its current share of the bulk insurance market. That will be harder to retain now other insurers offer greater capital strength and lower costs.

Sweeping cost-cutting, a searching re-examination of the way the central operations of the market are run, and a new regulatory framework are all necessary to survive in such a competitive arena. Ministers have promised an inquiry into the laws governing Lloyd's, starting next year. Whatever the political complexion of the government when this inquiry reports, there will be no escaping the need to provide parliamentary time and impetus for legislation.

All that lies ahead, in the meantime, the future of the market hangs on what members decide over the next month or so. Accepting the settlement may not be the most attractive of choices; but it is the only realistic one.

Sinking ships

The power of special interest lobbies to sway votes in the US Congress has long bedevilled Washington's efforts to conclude important international trade agreements. But rarely has that power been applied more perversely than to a proposed agreement to impose much-needed commercial disciplines on world shipbuilding. The result has not only impeded an arrangement of which the US is the main architect and champion. It jeopardises the interests of the US producers which the lobbyists purport to defend.

The accord, which took five years of negotiation in the Organisation for Economic Co-operation and Development, would place internationally-agreed limits on subsidies to merchant ships. It would be locked by binding disputes mechanisms, providing for sanctions against violators and - more questionably - by anti-dumping procedures to curb "injurious" price competition.

The agreement, which must be ratified by all the signatories, now awaits action only by the US. But it has been dealt a blow by the House of Representatives, which has overwhelmingly backed amendments in conflict with its central principles. The likely economic impact of the amendments - the most controversial of which would prolong federal loan guarantees to US shipyards - is small. But they seriously threaten the political compromise on which the

agreement rests. They are unacceptable to the EU and would give Japan and South Korea a convenient pretext to withdraw from the deal. Both acquiesced in it only under heavy pressure from Washington.

Collapsing of the agreement would risk setting off another international subsidy race and intensifying price competition in an already weak world market. The danger is greatest in Europe. Though huge government support has failed to halt the industry's decline, Brussels faces growing pressure to permit still bigger subsidies if the OECD deal is not in place by mid-October.

US shipbuilders have everything to lose from such an outcome. Many are struggling to survive deep cuts in defence orders by re-entering the world market for merchant vessels. Their already slender chances of success would be further weakened by a worldwide free-for-all, in which they would be squeezed between heavily-subsidised European yards and much more efficient Asian rivals.

There is still a chance that action by the Senate, which has yet to vote on the OECD deal, can repair the damage done by the House before Congress recesses for the elections. That opportunity must be seized. Spurning it would not only threaten a return to ruinous competition at taxpayers' expense. It would also harm the credibility of the US as a reliable negotiating partner.

Popular injustice

Many a policy fiasco and injustice has its roots in a Conservative party conference. It was true of the poll tax. It is equally true of the government's decision to withdraw social security benefits from asylum seekers, a policy announced by Mr Peter Lilley, the social security secretary, at last year's Tory conference and struck down by the Court of Appeal last week as unlawful and "unconscionably draconian".

Mr Lilley may appeal the decision to the House of Lords. If he loses there he could resort to primary legislation, which would not be subject to the objection raised by the Court of Appeal that such drastic infringements of the rights of asylum seekers should not be made by statutory instruments. Given the government's fragile parliamentary majority, it is possible that the policy will fall. But even if upheld by the Lords, or enacted by parliament as statute law, it remains unjust and impolitic. Unjust because, as one of the appeal judges put it last week, it "inevitably" defeats the statutory right of asylum seekers to claim refugee status - or, at least, of those asylum seekers lacking private means. The government is boasting that the number of asylum seekers has fallen by 20 per cent since the benefit cuts were instituted in February. The number could halve and still inflict misery and injustice on thousands of bona fide asylum applicants. It is this which makes the policy

impolitic, since few in Britain - and Mr Lilley is not among them - claim to wish to end Britain's long and humane record as a haven for refugees from political oppression. The monetary savings at stake - about £200m a year - are utterly trifling in the context of the £20bn social security budget. In any case, only the naive will believe that the need for savings is driving the policy. The thirst for cheap applause, aroused by attacks on the depredations of foreigners as by nothing else these days, appears to have been far more important, rendering the policy extremely distasteful.

The importance of last week's ruling goes beyond the implications for asylum seekers. Once again a ministerial order on a controversial issue has been cancelled by the courts. In this case ministers were almost inviting trouble by seeking to enact a radical change in policy by means of a statutory instrument.

However, the language of the majority opinion in last week's decision testifies to the increasingly activist pretensions of Britain's top judges. Lord Justice Simon Brown argued that drawing benefits would leave some asylum seekers "so destitute that to my mind no civilised nation can tolerate it". This sounds like a supreme court justice interpreting a Bill of Rights. Since the UK does not yet have one the judges should be careful.

An uneasy ceasefire in Europe

Britain seems destined to hold Europe hostage in the coming months, warns Lionel Barber

There is life after the beef war, as European Union leaders discovered at their Florence summit. Mad cow disease has produced mad politics these past two months. Florence restored a sense of calm, thanks to creative Italian diplomacy and a measure of goodwill which exceeded the expectations of Mr John Major, the British prime minister.

The willingness to settle the beef crisis was less a favour to Mr Major, more a recognition that failure would escalate tensions between Britain and Europe with unforeseeable consequences which would jeopardise the EU's two political priorities - the Maastricht treaty review conference and preparations for monetary union.

The UK may also have to pay a price for its policy of non-co-operation, the most serious disruption of EU business since President Charles De Gaulle ordered his "empty chair" policy in 1965.

In the end, the Italian-brokered compromise on beef offered the same terms which most believe could have been obtained with honour several weeks ago. In return for the EU pledging to lift in stages its worldwide ban on British beef exports, conditional on rigorous scientific checks, Mr Major abandoned his blocking campaign. Britain can appeal on a case-by-case basis to the European Commission and scientific experts for permission to sell beef to non-EU countries. Europe's farmers can expect a bigger cheque - Ecu560m (£265m), up from Ecu50m - in compensation. Thus, the crisis appears contained in political terms. But no firm timetable exists for easing the embargo, despite hints from Mr Major that he wants action by autumn. Meanwhile, Britain is pursuing legal action in the European Court of Justice against the ban on sales to third countries while continuing to challenge the legality of the original ban.

On Saturday afternoon, Mr Jacques Santer, president of the European Commission, signalled it was time to forgive but not to forget. "This should not have happened and it should never happen again. In a crisis like this there are no winners, only losers."

If Mr Santer's proposed confidence pact between employers, trade unions and governments to fight unemployment met a cool reception. Its symbolic centrepiece - the re-launch of long-stalled trans-European transport networks - foundered on last-minute German objections to his request for an extra Ecu1.2bn in EU financing.

Mr Santer's jobs initiative is his first gamble since taking office 18 months ago. The rebuff in Florence says much about the balance of power between the European Commission and member states. First, EU leaders are opposed to pan-European economic initiatives in areas of national responsibility. Mr Helmut Kohl, the German chancellor, spoke as forcibly as Mr Major on this point. Mr José María Aznar, the new rightwing Spanish prime minister, said it was not up to pub-



A disciplined line: Helmut Kohl (centre) speaks to Romano Prodi and Jacques Chirac (right) at the summit

Tricky way ahead after Florence crossroads

Britain and its continental partners are setting off in different directions, says Philip Stephens

Europe has given up on John Major. And, if his words reflect his intentions, Mr Major is about to give up on Europe. Absurd in itself, the now-resolved dispute over beef was the harbinger of a more serious rupture.

At the Florence summit came visible confirmation that his continental colleagues no longer regard the prime minister as someone with whom they can do serious business. In Helmut Kohl we saw indulgent condescension. In Jacques Chirac aloof indifference. Others made no effort to hide their contempt. No matter, one foreign minister told me as he looked ahead to the general election, Mr Major would be gone within a matter of months.

This was not just about beef. The residue of ill feeling left by the British tactics was everywhere apparent. I lost count of the times I was told that the prime minister had gained nothing from his obstructionism. But more striking was the sense that, as they look to Europe's future, others have decided they can no longer accommodate their awkward island neighbour. Like distant relatives at a wedding, the British are tolerated but not welcomed. Kenneth Clarke, the chancellor, alone seems at ease.

Mr Major was unshaken. Less than a week ago he had delivered a sermon on the need to remain actively, though not uncritically, engaged in Europe. He was neither phobic nor phile. In one of those awful phrases beloved of political spin doctors, Britain was the essential grit in the European oyster. It not seem like that in Florence.

Instead, Mr Major seemed anxious to amplify points of difference. He secured yet another opt-out, this time covering the European Court of Justice's jurisdiction over the new Europol police intelligence agency. He foreshadowed a bitter response to an expected ruling from that same court which would oblige Britain to agree a standard 48-hour working week.

Then the prime minister anticipated with some relief an acceleration of the work of the intergovernmental conference on further moves towards European integration. To the initial surprise of the summit, he enthusiastically backed the idea that the forthcoming Irish presidency should present a draft text of the proposed treaty changes at the Dublin summit in December.

But while others would like rapid progress towards a new treaty, Mr Major's intentions are altogether different. A draft text would allow him to spell out which of the proposals he would veto in the name of national sovereignty. Tony Blair might be put on the spot in the months before the election. In this Mr Major may have miscalculated. There are indeed some clear dividing lines between Conservatives and Labour. But they are not as significant as the divisions within the Conservative party.

Mr Major is raising expectations which, as it proved over beef, he cannot meet. The Tory Eurosceptics' demand for a decisive weakening of the court was greeted with derision among officials from other governments in Florence. So too was the notion that Britain could leave the Common Fisheries Policy. On one issue the prime minister did strike a chord - the need for flexibility in the future develop-

ment of the Union. But while he sees it operating on a case-by-case basis to allow Britain to add to a growing list of opt-outs from EU policies, France and Germany take a different view. They want the flexibility principle enshrined in the treaty to circumvent the national veto which Mr Major now wields so proudly. Then he could simply be ignored. For now, the government has unlikely allies in countries like Spain and Ireland, which fear that they too might be left behind by an inner core of Germany, France and the Benelux. But their patience with the British may soon be exhausted.

The divergence is still greater on economic and monetary union. Whatever happens in the intergovernmental conference, Emu now defines the ambitions of Messrs Kohl and Chirac. It is the route to their Europe. They remain convinced a single currency is within reach. Much of the technical work should be finished by the end of the year. Britain, it is assumed, will stand aside.

Mr Clarke does what he can to keep alive the prospect that sterling might yet join. He kept out of the Florence communiqué any reference to membership of the exchange rate mechanism as a prerequisite for participation. But privately at least, the prime minister makes no such pretence. Save for the certain loss of his chancellor and the probable destruction of his government, Mr Major would bow to his party's Eurosceptics and say No in advance of the election. Florence then was a crossroads. Britain and Europe are no longer travelling along the same track at a different pace. They have set off in different directions.

OBSERVER

A failure to communicate

Heads are still being scratched in Germany's business community over the abrupt departure of Boss Dieter Leister from his post as head of Deutsche Telekom's strong Aufsichtsrat, or non-executive supervisory board. When the decision was announced last Monday even Ron Sommer, Deutsche Telekom's chief executive, said he was "surprised". Others inside the company were less so, given that Sommer didn't appreciate Leister's hands-on attitude.

Sommer is trying to tighten up things inside Europe's biggest telecoms operator, before the lumbering behemoth is partially privatised later this year.

Leister, a management consultant who used to be head of IBM's German operations, had a rather grand approach to the telecoms business. Insiders point to the fact that he filed travel expenses for DM600,000 (£260,570) for 1995, rather steep, some felt, although his task of interviewing 40-odd external candidates for new jobs understandably racked up a few bills.

KPMG, the auditors, have pronounced these expenses entirely in order. But executives are trying to cut back on sudden hikes in costs, as the day is looming when they must answer to

shareholders. Whatever the case, Leister will probably find other occupation soon as he really does appear to understand something about the quagmire of telecoms. Your call is held in a queue and will be answered shortly...

Father figure

Poland's bankrupt Gdansk shipyard may be sinking under debts but Father Henryk Jankowski, the shipbuilders' chaplain, continues to bob about among the floats and jetsam. Somewhat to the embarrassment of Warsaw's diplomatic community, he is a formidable prelate who once homed by western ambassadors as a contact with Lech Walesa and Solidarity. In turn, he hosted sumptuous meals for world leaders like Margaret Thatcher at his parish of St Bridget's in Gdansk. But the flow of embassy invitations shrank abruptly last summer after the Father delivered a sermon whose anti-semitic note was too obvious to be ignored. Nor has he been invited to this year's national day parties at western embassies - with the exception of the German bash.

But to the hosts' consternation this hasn't kept him away. Father Jankowski, who recently said the devil inspired journalists to criticise him, may also be blaming Satan for losing the invitations in the post. As they say, the devil is

in the details. Given the chaplain's views, it would be rather generous to credit him with chutzpah.

Pardon my French

Events were proceeding well for Henry Cheung, the property tycoon and head of the Better Hong Kong Foundation, as he explained his confidence in the territory's future under Chinese sovereignty. But then came the question about passports - and the revelation that his is French.

This has become a sensitive subject since Governor Chris Patten's barbed comment about tycoons failing to stand up for Hong Kong's political institutions, and about the foreign passports that many carry in their back pockets.

Cheung's response? That he puts his money where his mouth is. A quarter of his company's equity is invested in China and much of the rest is in Hong Kong. The foreign passport is just a matter of convenience.

Particularly convenient if the changes post-1997 should not be for the better.

100 years ago

Cuba and the United States. A special messenger of the State Department arrived in Washington today from Havana bringing to the President the special report of General Fitzhugh Lee, Consul-General of the United States in Havana, on the condition of affairs in the island of Cuba. Mr Cleveland is on a fishing excursion, but left orders that the document in question should be sent on to him as soon as it arrived in Washington. It is thought here that an important and startling message on the Cuban question will soon be sent to Congress by Mr Cleveland.

Fine judgment

At a recent Delhi reception a UN official found he had only one business card left - and faced the extended hands of two eminent foreign correspondents. Before the official could make the embarrassing decision of which back to favour, David Gore-Booth, Britain's high commissioner to India, whipped it from his hand, ripped it neatly in two and handed each back a half each, saying: "There you are, no arguments." King Solomon would have approved.

Financial Times

100 years ago

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50 years ago

Decline on Wall Street. New York: This week's weakness of security markets was not unexpected. Market analysts say that this has been a long bull market and it is natural to expect setbacks. There is a shifting of sentiment among business men and bankers, however, regarding the business outlook, while some Washington economists are beginning to worry about deflation instead of inflation. During the late stage of the war everyone talked constantly of the huge backlog of demand, and of inflation and the big boom ahead. Now some are beginning to suggest an intermediate setback to business.

Football mania

The insults that British tabloids vented against Spain before Saturday's European championship quarter-final - won by England on

'Soccer summit' ends frosty period in relations

Japan and South Korea vow to strengthen ties

By John Burton in Seoul

The leaders of Japan and South Korea yesterday ended a rare summit with a vow to begin a new era of co-operation in their relations, which are still overshadowed by Japan's past colonisation of the Korean peninsula.

claims to the disputed island, known as Tokdo in Korean and Takeshima in Japanese, and Japan's brutal colonial rule of Korea between 1910 and 1945.

exchanges were limited to such non-controversial games as volleyball, hockey and basketball since "the results for soccer and other major sports can easily hurt national sentiments", explained a Korean government spokesman.

Struggle for power may follow death of Papandreou

By Kevin Hope in Athens

Andreas Papandreou, Greece's first Socialist prime minister, died yesterday of heart failure aged 77, after dominating Greek politics since the return of democracy in 1974.

THE LEX COLUMN

Webs within the Web

It is far too early to say whether Microsoft's new "webzine" will be a success, but the Internet magazine does start life with one big advantage: oodles of free publicity.



and in ethylene. Since ethylene is one of the basic building blocks for most chemicals, that could have repercussions on the product chain.

Among the commodity chemicals companies, ICI looks particularly vulnerable since polyester and titanium dioxide account for perhaps a third of profits in a good year.

European power

Quality matters too. Yahoo, for example, is scrambling to sign up the best content providers in doing so, it is trying to turn itself from a mere directory into a platform on which publishers display their wares.

Of course, Yahoo and its ilk will not be able to push poor content consistently or, indeed, deny electronic shelf-space to extremely popular brands.

At first sight, last week's decision by European energy ministers to open up Europe's electricity markets to competition looks a landmark.

Unfortunately, the small print tells a different story. Thanks to plenty of let-out clauses, the new directive will not cause national giants such as France's Electricite de France to shake in their shoes.

Chemicals

The macrochests of the chemicals industry are at it again. Memories of the last downturn are only just fading and already a new round of capacity expansion is threatening prices and profits.

The biggest problem is in polyester, used in clothes, films, car bumpers and plastic bottles. For the past three years, demand has been rising by 10-15 per cent a year and this has attracted waves of new investment.

Fortunately, the very absurdity of such devices means they are unlikely to last very long. It is customers who suffer, and they can be a pretty vocal group.

Probably the best that can be said for this limp new directive is that it should stroke these forces. Even in France, if users know they should have access to competing suppliers and do not get it, they will start asking awkward questions.

Convertible bonds boom

Continued from Page 1

group and Hammons, the UK property company.

Last week, the convertible-bond market took on a new dimension when the Italian government became the first Group of Seven nation to use it as a way to privatise state assets - in this case, its 94.38 per cent stake in Ina, the insurance company.

The poor performance of Ina's shares since the company was privatised in 1994 prevented the government from selling the shares through a straightforward equity offering.

UK, Germany block financing for EU transport networks

By Lionel Barber and Robert Graham in Florence

The European Union's showcase transport networks face indefinite delay after the UK and Germany blocked extra financing needed to launch the infrastructure project.

The deadlock over the transport networks at the end of the EU summit in Florence is a setback for Mr Jacques Santer, president of the European Commission. He had hoped to use the launch of the networks as a symbol for the EU's commitment to the region's 18m unemployed and to bolster competitiveness in Europe.

The outgoing Italian presidency had also pushed employment to the top of the agenda of the two-day summit, which ended on Saturday, but Germany's view that job creation was best tackled in a national context was widely shared.

Mr José María Aznar, the new right-wing Spanish prime minister, said "Public administrations should not be used as the prime vehicle for job creation."

The Commission request for an additional Ecu1.5bn (\$1.47bn) to bridge the financing gap for the networks was a central plank in Mr Santer's proposed "pact of confidence" between employers, trade unions and governments.

the networks, which include high-speed railways and motorways.

The UK and Germany said the delay in launching the networks was due to technical difficulties such as lack of compatible standards or insufficient confidence among private investors.

In spite of the disagreements, EU leaders said the summit had achieved positive results.

It defused the long-running row between Britain and the EU over the ban on British beef exports and paved the way for detailed work on the inter-governmental conference (IGC) on the future of Europe under the incoming Irish presidency.

Relief among EU leaders that a formula had been found that persuaded Britain to end non-co-operation following the ban on British beef was almost palpable.

But it was made clear to Mr John Major, the UK prime minister, that there were no guarantees of an early lifting of the ban. This had to depend on solid advice from veterinary and health experts.

The end of British blocking tactics opened the way for a deal on the long-stalled Europol police intelligence agency, which pools data on drug trafficking and organised crime.

EU leaders reaffirmed their determination to meet the timetable for the launch of a single currency on January 1 1999.

Uneasy ceasefire, Page 16

Obituary, Page 2

Tibet rift

Continued from Page 1

because of Mr Kobi's efforts, Sino-German relations would perhaps not be as badly damaged as the strongly worded Chinese statement suggested.

However, there were signs of further political repercussions from the Bundestag vote when a spokesman for Mr Roman Herzog, Germany's president, said that a planned visit to China later in the year was now "up in the air".

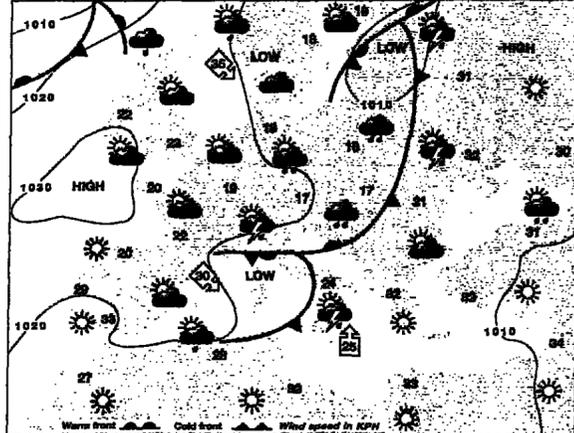
FT WEATHER GUIDE

Europe today

The Netherlands and Belgium will be mainly cloudy and cool with north-westerly winds. Other North Sea countries will be partly cloudy and dry.

Five-day forecast

A surge of warm air will result in fair and much warmer conditions over most of western Europe. The UK will become rather unsettled at times.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

Table with columns for city, weather, and temperature. Includes cities like Abu Dhabi, Accra, Algiers, Amsterdam, Athens, Atlanta, B. Aires, Beirut, Bangkok, Barcelona, Beijing, Berlin, Bogota, Bonn, Brasilia, Buenos Aires, Cairo, Cape Town, Cardiff, Caracas, Chennai, Cebu, Copenhagen, Dallas, Delhi, Dhaka, Dublin, Edinburgh, Frankfurt, Geneva, Gibraltar, Glasgow, Hamburg, Harbin, Helsinki, Hong Kong, Houston, Jakarta, Jersey, Kathmandu, Kuala Lumpur, London, Luxembourg, Lyon, Madrid, Manila, Mexico City, Miami, Moscow, Munich, Nairobi, Naples, New Delhi, New York, Nice, Oslo, Ottawa, Paris, Perth, Prague, Rome, Seoul, Singapore, Stockholm, Strasbourg, Sydney, Taipei, Tel Aviv, Toronto, Vancouver, Vienna, Warsaw, Wellington, Whangarei, Zurich.

No other airline flies to more cities around the world. Lufthansa logo and text.

STET International S.p.A. advertisement. Includes STET logo, 'has acquired 19,500,000 newly issued shares of ENTEL Entel - Chile S.A.', and 'US\$273 million'.

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